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# **How to Improve Business-Government Relations in Canada**

**A REPORT TO THE MINISTER OF INDUSTRY,  
TRADE AND COMMERCE**

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CHAIRMAN  
TASK FORCE ON BUSINESS-GOVERNMENT INTERFACE**

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September 1976.



SUMMARY  
The Honourable Jean Chrétien,  
Minister of Industry, Trade & Commerce,  
Ottawa.

Dear Mr. Chrétien,

I have the pleasure to present to you my report "How to Improve Relations between Business and Government in Canada".

The preparation of this report has benefitted from the part-time assistance of members of the Task Force on Business/Government Interface (established earlier this year) and from the contributions of senior public servants, a wide range of businessmen across Canada, and the staff of several research institutes. A long list would be required to acknowledge all such help. I do, however, wish to thank in particular the John Labatt Company for enabling Paul Little, Director of Corporate Affairs, to participate in the Task Force. Similarly, the Niagara Institute generously made available its Executive Director, Terry Mactaggart, and the Guaranty Trust Company, its then Chairman, Gordon Sharwood.

The remarkable efforts of my full-time assistant, David MacKinnon of the Department of Industry, Trade & Commerce, deserve special commendation.

I trust that during the coming months this report, having been made available to both government officials and to the private sector, will contribute to the public discussion that will precede the creation of the more harmonious environment necessary for the Canadian economy to become more productive for the public good.

Yours sincerely,

A handwritten signature in dark ink that reads 'Roy MacLaren'.

Roy MacLaren  
Chairman

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## SUMMARY

This report recommends specific steps that, for the public benefit, can be taken to improve understanding and co-operation between business and government. The main intent of the recommendations is to put in place a systematic management of the relationship between the public and private sectors as is done in other western countries, instead of the ad hoc character of the present relationship.

The first part of the report reviews the evolution of the relationship between the private and public sectors and notes several uniquely Canadian factors which complicate what would in any case be a complex relationship. Current and likely future influences are reviewed and the differing perceptions that business and government have of each other and of their common problems are examined. The various mechanisms in Canada intended to bridge the gap (e.g., business associations) are assessed, the experience and practices of other western countries are considered, and particular problems of smaller businesses noted.

The report contends that the most important difficulties and opportunities currently involved in the relations between business and government are:

- the absence of an effective forum for business and government to consider together economic challenges facing the country, which would provide a better shared perspective on where the economy is going and suitable methods to sustain a dialogue about it;
- a perception that the business-government relationship may be overloaded; this overloading is partly attributable to its use as a substitute for certain kinds of contact that business should have directly with its publics;
- the possibility that the effectiveness of business associations can be improved and additional methods developed for encouraging public understanding of business;
- the absence of determination to draw upon business - and other groups - to help manage and advise governments on industry-oriented matters and to reduce the isolation of the national capital, particularly through the greater use of joint boards and more effective executive interchange;
- the challenges, confronting both business and government, of the international trend toward increased government-to-government involvement in trade and investment;
- the possibility of reducing the widespread conviction that governments have become too big by more contracting-out or "reprivatizing" of some of their operations, with consequent savings;

- problems for business posed by unco-ordinated federal and provincial support programmes;
- the need for more and better Canadian business research.

From this analytical section of the report emerge the recommendations which form the second part.

The report's principal recommendation is the creation of a Canada Business Relations Council. Its members would be from both business and government. As a central task, it should monitor the business-government relationship. Supported by a small staff and independent research, it would also be the major form for systematic government-business consultation on economic trends. Sub-committees of this Council would review more specialized areas (e.g., international trade) and industry sector committees would also report to it. The Council would encourage greater co-operation among business associations and help to develop ways in which assistance to industry by governments can be better co-ordinated and made more effective. The business members of such a Council can also be available to participate in tripartite consultations (involving business, government and labour) or in a yet broader advisory group, if such are established.

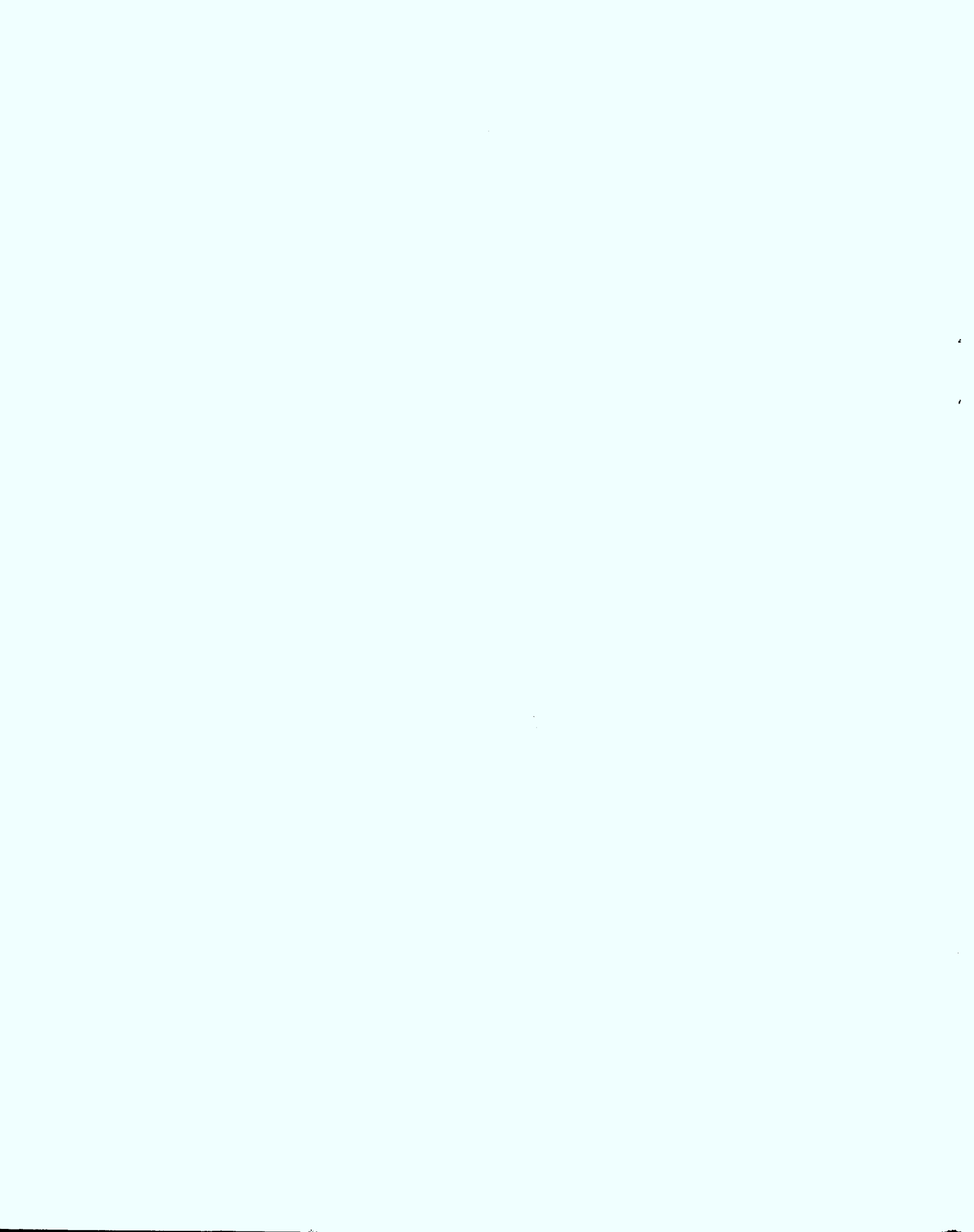
The report does not suggest the early creation of a major new organization involving labour and business and possibly other interest groups, to offer advice to the federal government. Some consultative functions can in the first instance be better performed by two separate councils, one with labour and the other with business. However, as specific issues warrant, the two separate councils can meet jointly. The report urges that this more gradual approach will lead in the longer run to a sounder structure, by winning the acceptance of the general public and provincial governments for major new consultative mechanisms.

Additionally, the report recommends:

- periodic briefings by ministers of the business members of the Canada Business Relations Council about long-term economic trends; quarterly reviews with officials of economic forecasts and other analytical information;
- an examination by a sub-committee of the Canada Business Relations Council of various actions that business might itself take to achieve directly purposes that governments attempt to achieve indirectly (e.g., self-regulation, improved disclosure and communications, employee representation, etc.);
- an increase in the capacity of business associations and "third-party" institutions to encourage greater understanding and co-operation between business and governments and possibly a federation among them both to improve the quality of their advice and to make government procedures more comprehensible to businessmen.

- more use of businessmen on government boards and strengthening of the executive interchange programme;
- the co-ordination, through a sub-committee of the Canada Business Relations Council and in full co-operation with the Canadian Export Association, of various existing export promotional efforts and the formation of joint government-business associations for those major world regions for which they do not now exist;
- a review by the federal government of all areas where further potential for contracting-out, "reprivatization" or joint-funding exist; whenever a new government activity is contemplated, it should first be reviewed to determine whether all or any part can be contracted-out to the private sector;
- agreement between the federal and provincial governments on increased rationalization of programmes intended to assist business. This can be encouraged by the further decentralization of certain federal services to business (e.g. joint federal-provincial "storefront" facilities for small business assistance);
- the promotion of more Canadian business research by universities and other third-party organizations, supported by both business and government.

The economic challenges currently facing Canada, both at home and abroad, understandably raise the question whether existing institutions are adequate to provide answers to the questions of how we came to be where we are and how we can achieve increased employment, productivity and prosperity in the face of an increasingly complex external environment. The institution of a deliberately managed relationship between business and government, sustained by a new institution and systematic practices, should help to provide some of the answers and to offer a greater likelihood of more comprehensive understanding among all principal interest groups in society.





**HOW TO IMPROVE**  
**BUSINESS-GOVERNMENT**  
**RELATIONS**  
**IN CANADA**

"Nothing in progression can rest upon its original plan. We may as well think of rocking a grown man in the cradle of an infant."

- Edmund Burke

**PREFACE**

The need for understanding and co-operation between business and governments in Canada must be evident to all those who believe that a mixed economy is the system best suited to Canada's current needs. Yet few today are satisfied with the state of understanding and co-operation. The recent confluence of high rates of unemployment and of inflation has underlined the urgent need for improved consultative mechanisms among major interest groups in society to ensure a common perception of economic problems and a concerted approach to their amelioration. Recent federal government statements and actions, such as the institution of the Anti-Inflation Board, have caused a degree of frustration and anxiety unknown in the business community in recent times, making it yet more urgent to move into place better ways of achieving consensus. In these circumstances, discussions of a possible tripartite mechanism (involving business, government and labour) are also gathering momentum.

There is no panacea. The work of building greater rapport between business and government must be predicated upon clear commitment by both sectors. That work will necessarily be cumulative, with confidence begetting confidence. It will not be sudden; the structure will be built only by brick being placed upon brick. Concurrently, the yet broader task of developing tripartite understanding can be pursued upon a more certain basis.

Our recommendations are of the brick-by-brick variety. It may be objected that they are unduly systematic. So be it. The whole subject of business-government relations is now so shot through with rhetoric, the reality of the relationships and the pressing need for greater understanding having been so obscured by emotion, that a systematic approach is in our view the best antidote to such excesses.

Those who seek revolutionary change will not find it recommended here. Nor will those who want a discussion of broad questions of public policy that bedevil the relation (for example, conflicting federal and provincial tax policies; current action against inflation; or the proportion of the GNP accounted for by the spending of governments). Rather the reader will find proposals for a structure and specific measures to reduce the possibilities of significant misunderstandings and, when they do arise, provide better means for their early resolution. Even with new and improved mechanisms in place, however, it should not be expected that all differences will gradually disappear. A residue will no doubt remain, reflecting the differing, although not necessarily incompatible, procedures and goals of business and governments.

The building of greater mutual confidence between business and governments will not be made easier by the fact it must take place against a background of rising social expectations; less willingness to compromise among more strident pressure groups; erosion of belief in the benefits of private enterprise; decentralization of government; greater worker participation in traditional management areas; international economic developments requiring a closer dialogue among business, government and labour within Canada; and pressures to devise viable methods of resource allocation to supplement or in some cases even to replace those of the marketplace.

Our mandate is to describe the current state of relations between business and government in Canada and to outline for action, additional study or detailed refinement, some methods and mechanisms by which the state of that relationship can be improved. The major reason for undertaking our study is the widespread impression, held by many business and government leaders, that the relationship is not as productive as it must be if the economic problems facing Canada are to be met. When one asks senior business managers about the current state of the business/government interface, particularly at the federal level, their responses range from growing discontent, uncertainty and unease to outright rage. Their diagnosis is, on balance, unfavourable, although it varies partly as a function of the individual's knowledge of government operations and his direct contact with government officials, parliamentarians and cabinet ministers.

**Purposes of the**  
**Report**

We review first the evolution of the business-government relationship in Canada and then consider pressures, including those of an international character, which will likely influence the way in which the dialogue is conducted in the future. Later, we examine perceptions which business and government have of each other, noting that a considerable gap exists between them. We weigh the present consultative mechanisms and then move on to a number of specific areas from which emerge the detailed recommendations at the conclusion of our report.

While we know of no other comprehensive examination of ways in which relations between business and government are conducted in Canada, this report makes no claim to be the last word on the subject: first, because that relationship is complex and always changing and, second, because our mandate does not include several important elements affecting the relationship, such as the role of parliament, of political parties, of labour, of the provinces and of the municipalities. Nor do we attempt to deal with the complex question of conflict of interest regulations which, while intended to protect the public interest, may on occasion impede greater understanding between the public and private sectors by rendering it more difficult or even impossible for businessmen to participate through executive interchange programmes or to serve on commissions, boards or in other advisory capacities.

Limitations of time and resources have not allowed us to pursue certain areas of our study to full conclusion. For example, the subject of greater "reprivatization" and contracting-out to the private sector of certain needs or services of governments is one on which considerable work has been done but on which, in our view, more remains to be done. We have contented ourselves, in such instances, in attempting to place such promising possibilities in the broader context of relations between business and governments in a way which we hope will provide impetus to their more detailed examination and implementation.

Finally, we are conscious that we have generalized on occasion about both business and governments, possibly leaving the unintentional impression that we consider both homogeneous institutions. On particular issues wide divergences of opinion may be found within "business" or "government". Business is often spoken of as if it were a monolith. In fact, business is the least coherent and organized of the major groups interested in the functioning and direction of the economy, an apparent paradox which reflects its diversity of views on many basic issues (e.g., free trade versus protectionism). We have worked to eliminate misleading generalizations, but this word of caution may nevertheless be useful to alert the reader to any such problems which remain.

## **INTRODUCTION**

### **Historical** **Evolution of** **Business-** **Government** **Relations**

As in the lives of individuals, relations between business and governments are, to a degree, shaped by myths. One such myth is the widespread and appealing conviction that rugged individuals, living in the wilderness, built our country. No doubt such people did exist, but many pioneers gravitated towards communities, working together to overcome the challenges of a vast territory and harsh climate. From the earliest French settlers, Canadians have often sought prosperity in collective acts rather than in isolation (a tendency somewhat more pronounced here than in the United States).

One of the theses of this report flows from this early partnership between collective acts and personal initiative. Private enterprise has been a cornerstone of Canada's affluence, acting as an effective allocator of the nation's resources and providing an incentive to individual initiative during our formative years. However, even this private enterprise was accompanied by joint projects and other government involvement in the economy. We have not lacked those who have espoused the virtues of laissez-faire policies, but such views have often been held more firmly in theory than in practice. In a recent speech, the Prime Minister summarized the unique Canadian situation:

The accomplishments of this country in coming to grips over the years with distance and space and climate are great by any standard....In largest measure, these accomplishments are the product of a partnership between government and private enterprise of a type unknown in many other countries....We have long since frankly acknowledged in Canada that our country is so large, our challenges so many, and our population so small, that we have no option but to pool our resources, first for survival in a hostile climate, then for the attainment of difficult goals. It's not easy - this co-operative approach. Not easy from the point of view of government. It would be much easier - and there would be less need for such an approach - were Canada in possession of a domestic market several times larger, and an industrial base to service that market.

The list of specific co-operative ventures between Canadian business and governments pre-dates Confederation: indeed, when it came to binding together the colonies of British North America, it was an amalgam of private and public enterprise which eventually subdued the challenges of terrain and climate. This was done largely by the construction of railways by private companies with extensive government support and, later, by the merger of several major railways into a crown corporation. The early part of the century saw the growth of relations between public and private enterprise quite different from previous arrangements. The development of western Canada and the demands of the First World War produced a transcontinental economy with some depth in manufacturing and service industries. The Depression, on the other hand, demonstrated that the tools available to guide the new economy were no longer adequate and additional institutions -notably the Bank of Canada in 1935 - were established. Other mechanisms were subsequently instituted, especially during the Second World War, to influence the national economy. Businessmen came to Ottawa to play a leading role in developing new public policies and institutions. These institutions demonstrated that an unprecedented degree of production through business-government co-operation was possible, partly because wartime co-operation was based on the one common goal of military victory and partly because Ottawa instituted the most vigorous and pervasive control of the economy any Canadian government has ever introduced (and, in so doing, enlisted the support and participation of businessmen in its administration).

Post-War  
Developments

During the post-war years, despite the dismantling of institutions established for the wartime management of the economy, the spirit of co-operation which had developed between business and government persisted, as people who had worked closely during the war carried that sense of co-operation with them when they returned to their peacetime careers. This spirit of co-operation contributed to a generally harmonious period in business-government relations, until other pressures developed during the late 1950's.

These new pressures arose in part from greatly expanded social requirements by the public and the growth of environmental, consumer and other interest groups. Taken together, the new programmes, the pressures of various groups and a generally more complicated range of problems facing governments in an increasingly pluralistic society resulted in a broader and more involved relationship between them and business. For example, the federal Department of Industry, Trade and Commerce - and its various provincial counterparts - could no longer serve as the only essential points of contact between businesses and governments; new departments of environment and of consumer affairs and various regulatory agencies have also interested themselves in the impact of business on society. In short, as a means of attempting to meet its changing needs in recent years, Canadian society has frequently looked toward collective action through governments, rather than through private enterprise\*.

Interest groups have sought new ways to influence the formulation of public policy. However, by contrast, there is a continuing belief among traditional political theorists that interest groups should have no other role in the setting of public priorities than the political parties and the ballot box. Yet the pressures of interest groups to make their views known in additional ways is already strong and most are increasing their demands that additional channels should be made legitimate under the ultimate control of parliament. Business and labour are no exceptions to this general trend among interest groups.

In recent years, the trend towards greater intervention by governments in the workings of the marketplace has been accelerated by recognition of certain growing shortages in the economy (the most obvious being energy) and the mounting requirements for capital investment with its implications for the exchange rate of our currency. When resources are seen as unlimited (a widespread perception during

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\* A comprehensive survey in National Finances 1975/76 of the Canadian Tax Foundation indicates the remarkable degree to which the federal and provincial governments are today "involved in a number of activities, from satellites to sheep, which are intended to return a profit and, indeed, even in speculative activities that can return both an operating profit and an increase in the value of the investment."

most of the post-war quarter century), all programmes - government or private - are perceived as capable of going more or less full out without fear of basic conflict. However, once shortages occur - or are allowed to occur - that system is no longer so feasible. Under such circumstances, governments often consider it necessary to screen the allocation of resources to ensure continued economic progress and to avoid bottlenecks. This causes increasingly difficult political choices among competing needs, partly the result of a reluctance to permit the price mechanism to adjust to encourage the investment that will bring forth new supplies or substitutes. In a sense, restructuring rather than simple expansion will then be required for economic growth. Restructuring implies major transfers of resources from one sector to another, with a much greater degree of conflict inherent in the task assumed by governments to choose.

**Impact of**  
**External Factors**

Finally, in several important respects, changing trends in international trade and investment have also added impetus towards the greater involvement by governments in commerce. Problems of co-ordinating Canadian domestic and foreign policy and the increasing international interests of virtually all federal and many provincial government departments is partly a result of the growing interdependence of nations, the increasing complexity of the international trade and investment environment (reflected in the growing numbers of inter-governmental economic organizations) and the growth in multinational enterprises. Canada's international trade is an issue of particular significance for business, labour and government because of the pressing need to improve our performance (given the fact that about 21% of our GNP is exported, a greater proportion than any other industrialized nation).

Until recently, Canada enjoyed some special privileges in international trade. Canada's preferred position in Commonwealth markets has been virtually eliminated. Instead, we face reverse discrimination as other preferential trading areas and customs unions are formed (e.g., the European Economic Community and its Associate States; the Latin American Free Trade Area; the Caribbean Common Market; the centrally-planned economies of eastern Europe; etc). Canada, almost alone among industrial states, is left out of these new regional groupings. The role of developing countries is also changing as they seek, in their proposals for a "New International Economic Order", concessions from the industrial world in exchange for their resources and investment opportunities.

These developments are occurring at a time when Canada's aspirations to export more highly processed and manufactured goods have increased. The Canadian response has been to seek freer trade in the successive rounds of GATT negotiations through reducing tariffs and non-tariff barriers. Canada has approached the current negotiations on the basis of maximum liberalization of trade, with the objective of eliminating or minimizing trade barriers on an industry-by-industry

basis. Beyond that, we are seeking (within the GATT) special arrangements in the increasingly prosperous markets of the European Community and Japan which, while short of granting special privileges, should facilitate economic co-operation and compensate at least in part for the preferences lost and the new discrimination. Special relations with the EEC and Japan are also seen as providing a better balance in Canada's overall trade which has become so dependent on the United States - the "Third Option" which is regarded with scepticism by some in the private sector.

Canada still has many basic strengths in the international market place, but recent changes, when taken together, present a formidable challenge. Clearly, Canadians will have to compete more effectively in foreign markets, especially in processed and manufactured goods. For example, the "contractual link" with the European Community is in existence, but remains more of a concept than a reality. The link, moreover, is not simply a matter of trade, because trade is becoming in large part a function of other industrial links (e.g., licensing, investment, technology exchanges, joint ventures, co-operation in third markets, etc.).

The question then devolves into how we can best organize domestically to meet the new trade challenges and to exploit future business opportunities abroad. These external developments will lead inevitably to greater involvement of governments in international economic arrangements and join with internal pressures for closer business-government understanding. The task of altering entrenched trading patterns and concurrently diversifying our industrial structure cannot succeed without greater co-operation between business and government, similar to the harmony which characterizes the business-government relationship among so many of our competitors.

#### **POSSIBLE FUTURE ENVIRONMENT FOR BUSINESS/GOVERNMENT RELATIONS**

#### **Possible Future Conditions**

Forecasting the future environment for relations between the public and private sectors is hazardous. Nevertheless, some economic hypotheses have been offered by the Economic Council and private research institutes. They generally agree that the rate of increase in the size and configuration of the Canadian population and labour force will slow over the next fifteen to twenty years. The growth rate both in the supply of, and demand for, goods and services may also be slower than during recent decades, partly because of slower labour force growth, increased capital demands for the supply of basic commodities and an uncertain international trading climate. Export opportunities may be enhanced by a successful conclusion of the current multilateral trade negotiations, but these gains could be partly nullified by Canadian isolation from trading blocs.

In light of this necessarily brief forecast, several factors of particular impact on future relations between business and governments can be postulated:

- Canada's economic performance will be mixed, along with certain other western countries, but is clearly not as good as most Canadians would wish and growth prospects will be uncertain, making business-government co-operation more important than at anytime since the war;
- as labour shortages result from declining work force growth (a serious prospect for the 1990's) even greater emphasis will be required to encourage worker mobility and re-training;
- it may be necessary to time large investments, not necessarily by the creation of new agencies of governments, but almost certainly by existing regulatory authorities;
- an older average age of the population means that for the next 25-30 years, the burden of social programmes will remain constant or diminish; after that, however, it will rise steeply as the post-war baby boom nears retirement;
- decision-making with regard to some increasingly scarce resources will become more complex and the interdependence of nations for essential supplies will increase, although these factors can be partly mitigated if adequate price changes and timely investment decisions are facilitated.

These circumstances may take the business-government relationship in many directions and nothing is inevitable in the sense that the future is amenable to policy measures taken now. Nevertheless, one "futurist" (of the St. Lawrence Institute) considers that

the government and business sectors must lay the groundwork for ... planning. An inventory must be taken of Canada's potential economic capabilities over time.... planning implies capital [ and credit ] allocations...the government will help create an economic environment that will reward private investors most highly when investing in areas favoured by government.... Any private incentive system will no doubt be backed by government willingness to invest directly in areas deemed in the national interest, but in which private investors do not choose to enter.



All forecasts are open to debate, but on one point there appears little dispute. As a result of a combination of internal and external pressures, the role of governments in the Canadian economy will become more important. The mixed economy is clearly here to stay, a prognosis supported by the creation of the Anti-Inflation Board and the web of regulations sustaining it. Dealing with wage and price controls is now one of the major demands on executive time and creativity, a claim made only slightly less burdensome by the temporary nature of the controls.

Having sketched the background to business-government relations in Canada, the international environment, and possible future influences on relations between the public and private sectors, we turn now to consider how the dialogue is conducted in other member states of the OECD.

Institutions not  
directly  
transferable from  
one country to  
another

Our review suggests that, for various reasons, most industrialized countries have achieved a greater harmony of purpose between the two sectors\* and, in many cases, with labour as well. However, while we admire their successes, from a practical point of view there is little that can be applied without modification because social institutions, including relations between government and business, are not readily adaptable from one country to another. They are too much the product of the history and a part of the total social fabric of one country to be applied with ease in others. We recognize in the success of others a need to improve ourselves, but at the same time we recognize the need for practices and institutions compatible with our own peculiar circumstances and the constraints of our social, political and economic structures (e.g., anti-combines legislation in Canada is more exacting than in most European countries and may have a greater adverse impact on the ability of Canadian business to formulate common approaches to government than is the case in Europe).

Some general  
conclusions from  
other national  
experiences

On the other hand, while we can never slavishly copy their examples for the reasons noted, few institutions in the western world do not benefit from some stimulus of other national examples. In that sense, at least some part of the future environment for Canadian business-government relations will emerge, in modified form, from practices now used or contemplated in other countries.

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\* For example, the United States Department of Commerce published in 1972 Japan: The Government - Business Relationship which examines in detail the proposition that "Japanese businessmen take it for granted that there will be continuous dialogue between business leaders and government officials, and that neither will make majority policy decisions or undertake major projects without consulting each other. Japanese business as a whole does not object to its government's active involvement in business matters. There is not the same adversary stance that characterizes the general attitude of U.S. businessmen."

With these caveats in mind, we examined ways in which co-operation and understanding between business and government are promoted in other industrialized countries. A brief note about several individual OECD countries is at appendix I. \*

Among the countries reviewed in appendix I, there is a widespread acceptance that successful industrial policy depends on close, continuing contact between government and industry. Policies can only be formulated with understanding of the other's aims and problems, based upon factual information. Government policies can be implemented adequately with the active co-operation of industry, based upon both mutual understanding and respect, as well as a broad degree of consensus about social and economic objectives and about consistent measures for their attainment.

To achieve this, other western countries have some machinery for bringing business, labour and other interests into the making of economic and industrial policy. The relevant body may be an advisory council on economic policy with subdivisions for specific industries or industrial branches.\*\* In some cases, alongside such general economic councils, there may be a separate body concerned specifically with industrial policy. The various advisory bodies normally make policy recommendations to government and frequently have a legal right to be consulted in advance on draft legislation and regulations in their field of competence. In some OECD countries, they are endowed with important facilities for economic research, forecasting and analysis, making them key instruments in the planning of policy. In certain cases, such councils not only act as advisors to government, but also include government representatives in their own membership (in addition to business, labour, etc.). Advisory bodies do not, of course, constitute the only type of consultative machinery: policy proposals may be sent by government directly to business and labour organizations for comment; or commissions of inquiry representing relevant interests may be established on an ad hoc basis to examine specific policy issues; etc.

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\* For some of this information we are indebted to in the OECD report, The Aims and Instruments of Industrial Policy: A Comparative Study (1975); Economic Consultative Bodies, Economic Council of Canada, (1971); and papers prepared for the Conference on Relations between Government and Industry in February 1976 at Ditchley, England.

\*\* A recent report prepared for the federal Department of Labour ("the Connaghan Report") analysis in some detail the tripartite consultative practices in Germany and considers their adaptability to current Canadian needs.

Other countries  
deliberately  
manage the  
business -  
government  
relationship

The examples in appendix I suggest the variety of techniques employed to give substance to the fundamental goal of achieving mutual understanding and a commitment to implement economic policy. One conclusion can, however, be drawn from these diverse examples. It is of basic importance. It is also a fundamental difference with the situation in Canada. That conclusion is that the relationship between business and government (and generally labour) is a consciously managed relationship. It is not ad hoc. It is not accidental. It is not fire-fighting. It is deliberate and it is mutually managed.

**THE BUSINESS/GOVERNMENT**  
**RELATIONSHIP IN CANADA**

**(A) Business Perceptions**

We have reviewed the evolution of relations between business and government in Canada, suggested some future trends and noted some general differences in approach between Canada and other OECD member states. Let us now describe in more detail the varied flavour of current perceptions of governments by Canadian business leaders by quoting from our conversations with them:

- [ Co-ordination between government and business ] is a prerequisite to the implementation of a successful approach to industrial development during the 1970's.... but far too many contacts between government and industry continue to be coloured by attitudes such as "them" (government) and "us" (industry), as if we did not have mutual objectives."
- "The less government there is, the better our company likes it."
- "But really the system is good, the co-operation excellent. I have noticed, of course, that there are a lot of people writing these days about poor industry-government relations [but] this is largely a press creation."
- "Government performance at consulting business over the past several years has worsened....Today we find we don't know where government wants us to go and what government wants us to do, so we're planning in a vacuum."
- "In our relations with government, we win the little ones and lose the big ones."
- "Vital business institutions and viewpoints are fundamental to the economic well-being of Canada. But they are also a part of the social fabric of this country. Often I think that government people sell us short and regard us as pursuing only selfish objectives. We also have a view of the national interest and want to provide our expertise, but we are frustrated by the absence of any real means of doing so".

These diverse quotations illustrate the range of opinion within the business community on current relations with governments. Certainly most of our interviews with businessmen - and, indeed, even a cursory survey of the media - confirms the differing perceptions of government by businessmen and, in some cases, even the absence of the mutual understanding upon which common objectives in economic policy can be pursued. But while opinions are diverse, the weight of opinion regarding the role of governments is hostile and senior businessmen generally are critical of the current state of the dialogue. Generalizations can be misleading, but our survey leaves us in no doubt that the following perceptions and frustrations, while formulated in differing ways, are common to many businessmen:

**Business views of  
government**

- a rejection of the idea that business is just another interest group and the corollary conviction that business and labour together create the necessary economic underpinning for the existence of interest groups;
- a fear that there is no stable ground on which to take a stand between a market-based, investor oriented system on the one hand and "socialism" on the other. Governments are seen as moving increasingly large sums away from the producers to less productive elements in society;
- Some businessmen believe that there is neither a shared perspective on the economy, nor even a common, readily accessible data base upon which to develop one;
- other groups within society - unions, the media and, above all, governments - have increased their influence and power relative to business and economic decisions are now being taken by those constrained neither by laws similar to those restricting business nor by the disciplines of the marketplace;
- economic policies of governments often appear to be ill-conceived, short-term or lacking in focus; complex new legislation and regulation is introduced at such a pace as to be indigestible without the major diversion of productive energies of management; for example, many businessmen consider the anti-inflation programme to be a major overhead cost and that, whatever the intention, the programme has a great hidden cost in terms of business attention to it at the expense of more normal business activities;
- some in government do not understand the nature of commerce; consequently, they sometimes impose demands or restrictions in ways which are badly managed, superfluous or unnecessarily burdensome in terms of both time and money; regulatory agencies continue after they have outlived their usefulness;

- the growth in federal and provincial departments and agencies often results in duplication, compartmentalization, lack of co-ordination and, for the outsider at least, confusion about whom to consult;
- retroactive applications of new government measures increase uncertainty in business decision-making, especially regarding investment, and the "rules of the game" are sometimes changed after major business decisions are made;
- in some cases of apparent consultation during the planning of legislation, there has been little or no evidence that business views have been seriously considered; even when they have, there has been no satisfactory explanation why they were rejected. Excessive secrecy in governments is often perceived as the reason why there is no response;
- governments have not yet developed satisfactory systems for accountability, internal management and control (factors which, for example, are seen as contributing to an unrealistic pace in wage and pension agreements in the federal public service);
- perhaps most importantly, many businessmen feel that governments have become too big, pre-empting a steadily rising proportion of personal incomes and a particularly large part of increases in those incomes. This belief is so pervasive, and colours the government-business dialogue so extensively, that it is becoming an emotional subject. We cannot hope to treat it extensively, but given its pervasiveness, it would be unrealistic to ignore it.

Many businessmen point to recent British experience and fear that Canada may be headed for a similar economic situation, a dolorous condition which they attribute to excessive social welfare programmes, declining productivity, a top-heavy bureaucracy and a failure by government to keep the country living within its means. This spectre of national decline has a powerful hold on the minds of some businessmen and leads in certain cases to an intense hostility to any government activity in the marketplace.

At least some of this type of fear can be attributed to a failure to understand the structure of government and, even more importantly, the forces that bear on government policy formulation. Those few businessmen who have studied these matters, while no less convinced that government economic policy is misguided, nonetheless accept that there are many areas where increased government activity is justified, and have been actively searching for ways to improve the dialogue. Some have spent considerable time and energy investigating possible improvements, such as better consultative mechanisms, improved policy research resources, public education programmes and political activism. While generally discouraged with the results of

consultation with governments, they do not discount the potential of future government initiatives aimed at more effective discussions with business. Yet even these knowledgeable and experienced businessmen grow increasingly impatient because their efforts bring so little in the way of apparent result in influencing economic policy: some of them have concluded that the root problem is frequently a fundamental conflict between short-term political and long-term economic goals.

Some or all of the general attitudes cited above are common to the managers of both large and small businesses, although lack of rapport with governments affects each in different ways. Larger businesses are affected extensively because the functional relations between large corporations and modern governments are so frequent and pervasive. Smaller businesses, on the other hand, are perhaps more intensely affected. For example, a single relationship with a regulatory agency can mean the difference between failure and survival.

The differences between government and business appear greatest with respect to major policy issues (e.g., taxation, competition and tariff policy, etc.). On matters more related to the daily operations of individual firms and on questions of specific detail, many businessmen and their associations acknowledge a gradual improvement in the accessibility of public servants and a greater apparent willingness to listen. Some businessmen are encouraged by what they see as the increasing use of certain consultative tools (e.g., green or white papers; joint task forces or advisory councils; etc.), but others regard these improvements as insignificant compared with their difficulties in contributing effectively to the formulation of major economic policies.

#### **B. Government Perceptions of the Business/Government Dialogue**

It is more difficult to describe the range of attitudes of those in government towards the business community. They are much more constrained than businessmen in expressing their views: public servants by the need to ensure that opinions they express are consistent with the policies of the government of the day, and ministers because they are members of a collective executive which must preserve some degree of a common approach to various contending interests in society - including business - to be effective. However, it is probably fair to say that perceptions of business by those in government are at least as varied as business perceptions of government. They range from considerable distrust to enthusiastic co-operation.

Within that wide spectrum, many public servants and, indeed, some of the public see the role of governments as being adjudicators among contending sectors of society. That members of the public may have misgivings about this referee role when related to the recent growth of "big government" does not lessen the conviction of some public servants that greater candour with the contenders would be incompatible with their own impartiality.

**Government**  
**perceptions of**  
**business**

In these terms, businessmen are seen as only one of many contending interest groups in society, not to be differentiated in any substantial way because of their responsibilities as managers of the largest part of the nation's productive facilities. By extension, businessmen can then be regarded as interested in pursuing only their own interests which, while recognized as essential, are nevertheless seen as narrowly defined and infrequently in full harmony with the public interest. Conversely, governments are regarded as institutions that can only rarely be viewed as doing anything not synonymous with the public interest.

Other public servants concede that there are shortcomings on the part of governments in promoting co-operation, but add that problems of structure, co-ordination and management are endemic to modern governments everywhere and also have parallels in the modern corporation. These public servants also consider the credibility of business as weakened by what they regard as its failure to convince the public that the interests of business and of society at large frequently coincide. Many attribute this failure to the defensive behaviour of business associations and an inability to offer clear advice to governments. While some public servants and politicians understand that the membership of business associations necessarily reflects a variety of interests, not all of them in harmony with each other, others clearly are insensitive to the difficulties inherent in the disparate nature of such organizations. Nor do they always recognize the effort needed to formulate solid opinions which both satisfy the members of an association and which are, at the same time, sufficiently clear and substantive for use by governments.

Others of a more extreme view consider that market mechanisms are an increasingly inappropriate method of making certain kinds of social decisions. Governments rather than the market place are seen by them as the prime allocators of resources. Their approach emphasizes the responsibility of governments to support economic growth, to correct inequitable access by regions or social groups to an array of perceived entitlements (such as education and health care), and to counter monopolistic or oligopolistic trends to a degree unknown in the past. Some consider governments as "defenders of the man on the street" against large corporations interested only in influencing him to buy, rather than in satisfying what they consider his real needs. They are also concerned that while the price mechanism may measure accurately private costs and benefits, it may ignore certain indirect social costs of the productive process, thereby shifting them from private users to the public generally. To minimize this problem, additional methods of taxation and regulation are considered by them to be necessary, as is improved disclosure among business, labour and indeed governments.

### Summary

In short, business and government perceptions of their relations are in substantial conflict at a time when, as noted previously, the future demands on both will likely require a greater degree of co-operation than ever before.

**C. Present Mechanisms for Consultation  
Between Business and Government in Canada**

**Federal  
consultative  
Mechanisms**

A few years ago, in responding to a plea by the Chamber of Commerce for more effective consultation between business and the federal government, the Prime Minister, by pointing to the fact that some several hundred committees, boards or other joint entities already exist, raised the question, by implication, of how they could be improved. We list a few of these federal government organizations in appendix II, a list which reflects their extraordinary range. However, our brief survey of these organizations, undertaken to probe the differences in perceptions noted above, is intended to be illustrative only. In addition to those organizations noted in appendix II, there are a multitude of specialized joint committees, councils or groups in other departments and agencies which do useful work, often requiring a high degree of expertise. We attempt to outline the state of the consultative art, rather than give it definitive treatment.

Despite the large number and diversity of joint groups, a few generalizations can be hazarded, as partial explanations for the success of some, the failure of others, and the deficiencies in such government organizations taken together. These are:

- (a) consultation obviously works best when all the major relevant departments of a government are involved, as well as those parts of the community who will be affected by the decisions taken. Yet in practice this is not always the case. It is also important that programme initiatives be related to the consultative process, so that results can be seen to emerge from the discussions held. On most subjects, particularly those of interest to the business community, this means that several departments - represented frequently by their ministers, as well as officials - should consistently participate in all major consultations with business. In fact, however, this is frequently not so, a problem which we consider to be the single most serious difficulty confronting federal consultative efforts;
- (b) the more regular and widely known, the better a consultative process will be. In our discussions with business associations, our attention was drawn to the difficulties some have in achieving a consensus on particular issues. Unless they know when they are going to be consulted and by whom, it is difficult for them to get their homework done on time;
- (c) the most important and useful consultations are those which are purposeful. While some general discussions are no doubt necessary, the final judgment of both sides with respect to any consultation rests on the results emerging from it. If the results cannot be measured against a reasonably clear purpose, morale is sooner or later adversely affected.



Examples of  
Provincial  
Arrangements

Formal procedures for consultation between the business community and provincial governments are varied. The following are a few examples. In the Atlantic provinces, premiers' conferences were held for many years immediately following conferences of the Atlantic Provinces Economic Council, so that the APEC output could be fed into the premiers' deliberations. Ontario has developed a promising consultative mechanism in its Economic Council; it has also made effective use of business talent in certain public sector activities (the Ontario Committee on Government Productivity in 1971 being an outstanding example). In Alberta, the provincial government is given high marks by much of the business community for its recent resource pricing decisions (as opposed to earlier decisions when consultation was described as inadequate) and for attracting many people from business to the provincial public service.

Business  
Consultative  
Efforts

Business associations are for many small and medium businesses the major vehicles by which they relate to programmes of governments. Large businesses are often able to deal directly and to develop the expertise and the internal staff necessary to do so, although much remains to be done to strengthen corporate public affairs departments and their authority within Canadian companies. The advice of lawyers, accountants and public affairs consultants can frequently be valuable in identifying how, when and where to offer advice to, or seek information from, governments, but no consultant can adequately replace an effective internal public affairs department.

There are two major types of business associations in Canada: the few "horizontal" associations which cross industry lines (e.g., the Canadian Manufacturers' Association, the Canadian Export Association, the Canadian Federation of Independent Business, the Canadian Chamber of Commerce, the "Conseil du Patronat" in Quebec, etc.) and the many "vertical" associations limited to one industrial sector (e.g., the Canadian Pulp and Paper Association, the Canadian Petroleum Association, the Canadian Broadcasters' Association, the Canadian Business Equipment Manufacturers' Association, etc.). In addition, there are organizations in which business participates along with other interest groups, such as labour (e.g., the Niagara Institute, the Canadian Tax Foundation, the Fraser Institute, the C.D. Howe Research Institute, the Conference Board, etc.).

The horizontal associations typically tackle the major economic and public policy interests of their members (frequently through specialized sub-committees) and address their opinions on these issues both to governments and, in an attempt to win broader support for their views, to the general public. In some cases, they have been successful. In general, however, the difficulties in reconciling conflicting opinion within the business community due to geographical separation, inadequate professional research capacities and differences in size and ownership of members has so far rendered it impossible for any one of these horizontal organizations to serve as the single "voice of business".

It is frequently alleged that business associations must go to the lowest common denominator in formulating an association position. We consider that difficulty, where it exists, to be largely the result of geographic separation and differences in size and ownership, and less attributable to the leadership or policies of the existing associations. Just as Canada is one of the world's most complex countries to govern, so also is it difficult to represent any particular interest group within it in a way which has meaning to all parts of the country. In the case of the business community, such problems may upon occasion be aggravated by the high proportion of foreign-owned industry and the extent to which they may influence some industry associations.

The second or "vertical" type of association, is quite different. In most cases, these organizations were established primarily to provide statistical and other support to members on questions of particular concern to them. When most associations were founded, relations with governments were neither as complex nor as essential as they are today. Despite their specialization, services to their members are often extensive (e.g., the staff of the Pulp and Paper Association numbers over seventy). The degree of success that these more specialized or vertical organizations have in dealing with governments, while not generally hindered by conflicting interests among member firms, is dependent on a variety of other factors, including the quality of their staff, their research resources, the extent of coverage of the industry and so on. These factors vary widely from association to association.

Problems  
with business  
Consultative  
efforts

Our impression, and that of many businessmen whom we interviewed, is that most associations are not as successful as they would like to be in acting as intermediaries between their membership and governments. If they were, the "perception gap" would not be as pronounced as it is. Widespread public misunderstanding of the real nature of profit and of business - an ignorance which greatly concerns most senior executives - would at least be mitigated by an intelligently expressed and extensively presented business viewpoint. Some businessmen go further in attempting to contribute to a higher public standard of teaching about economic and commercial matters through supporting the recently established Canadian Foundation for Economic Education.

These apparent weaknesses in business associations cannot be attributed completely to the causes which immediately come to mind. In our interviews, the quality of association staffs seemed to us to vary greatly; research resources are often inadequate in particular cases, although not apparently lacking in total or in certain industries (the Canadian Construction Association, for example, has an annual budget of \$1 million largely for information and research.). Most associations appear to be reasonably representative of their industry

and none complained to us about lack of access to government officials. Part of the answer, at least, may lie in a question of emphasis - that is, on the priority which business associations give to certain kinds of consultative activities. It is possible, for example, that they may devote too much time to reacting to government initiatives (in partial contrast to labour unions) rather than originating policy proposals. It is also possible that business associations spend too much time dealing with technical details, instead of broad policy, or with issues that concern only their particular sector of industry as opposed to matters of broader public interest.

While these possibilities merit close attention, they still do not, in our view, represent a sufficient explanation for the widespread impression of inadequacy in business associations. Business - or indeed other major interest groups in society - should not have to duplicate the analytical capacities of governments to be able to consult effectively with them; indeed, such a development, because of its cost, is clearly not in the public interest. Our diagnosis attributes the problem of inadequacy among business associations to two factors: (1) a failure to co-ordinate their submissions and advice to governments (a problem which parallels the difficulties of government departments in relating their particular consultative processes to the interests of the government as a whole); and (2) a number of important structural and attitudinal problems unique to Canada, which makes the business-government dialogue much more difficult than in most other western nations.

The first problem, that of coordination among business associations, is the easier to analyze. Contact by business with governments, and government contacts with business, are not managed processes, in that advice is not always given at regular intervals, timed to have maximum impact on government programme review or budgetary cycles. Further, partly as a result of the problems of co-ordination among business organizations, big and small, in their submissions to and in contact with governments, many proposals and submissions to governments do not reflect the statistical and analytical work performed by various public policy or economic institutes. Closer working relations with these bodies, based upon strengthened internal professional staff to facilitate such liaison, would be very useful. Moreover, in our view, these institutes deserve greater financial support from business associations, both to ensure that they can do the kind of fundamental analysis that few companies or associations can do on their own and that the final product presented to government is as factual, precise and concisely expressed as possible.

The second factor complicating the dialogue is uniquely Canadian, is much less manageable, but also requires more deliberate management. The most important conditions affecting the evolution of the business-government relationship in Canada as distinct from those in other western countries are:

- (1) the extent of foreign ownership;
- (2) the federal state and regionalism;

Distinctively  
Canadian  
difficulties

- (3) the separation of the national capital from commercial centres; and
- (4) biculturalism.

Perhaps the most obvious of these four is the extent of foreign ownership. The issue has featured prominently in discussions of recent Canadian economic policy and, for that reason, we shall not review it in detail. However, the extent of foreign control of Canadian industry cannot but affect the dialogue between business and government. In some ways, participation by foreign-controlled multinational corporations is valuable because of experience gained from their worldwide operations; they also, in many cases, employ Canadian managers whose personal contribution to business-government understanding are just as important as those of other Canadian citizens employed by Canadian-controlled companies. By definition, however, the multinational company is an organization generally managing people and capital in ways which contribute most to the profitability of the whole enterprise through an international division of labour based upon comparative advantage. Upon occasion, this may not necessarily be in the particular interests of a nation in which it operates. In some fields (such as taxation policy, allocation of export responsibilities and internal transfer pricing), decisions can work to the advantage of one country and to the disadvantage of others. For these reasons, governments sometimes regard large foreign-controlled firms differently in terms of business-government discussions than they regard domestically-owned firms where possibilities of conflict between public and private interests are not seen to be as great. For example, Canadian governments will have particular concerns of this type about firms subject to extraterritorial application of another country's laws, at least until such time as a satisfactory international framework is constructed within which they can operate without causing misgivings or confusion.

## Foreign Ownership

The impact on business-government relations of a significant foreign presence in the Canadian economy is perhaps even more pervasive than this brief analysis suggests. Business leadership, as is the case in leadership of any section of a total community, depends on a ready recognition by the public that its leaders are part of that community and that its interests are their interests. When the visible signs of many parts of the Canadian business community - such as trademarks, brand names, advertising - are identical to the visible signs in other countries, the ability of business to communicate fully with the community can be impaired.

Additionally, we have already noted that within business associations the mixture of foreign and domestically - controlled corporations may on occasion reduce the clarity of an association's collective views. More broadly, in many democracies public policy is seen as the result of the play of various institutions, each advocating different approaches, and their eventual resolution. In Canada, the contribution of business to this process of synthesis may upon occasion be limited by the fact that so many large corporations are foreign-controlled. As a result, the countervailing voice of business is sometimes muted.

**The Federal  
State**

While the fact that Canada is a federal state and has strong regional economies is hardly unique (Australia, Switzerland, the United States and Germany all share roughly similar characteristics), the Canadian provinces do have singular and broad responsibilities and decentralization of sovereignty has gone further than in most developed countries, requiring constant negotiation among the three levels of government. Regional or local aspirations are thereby given substance, but sometimes at the price of less clarity in national goals or of difficulty in reaching national consensus, including over economic issues. The existence of eleven senior governments in Canada often results also in duplication of each other's efforts and a dispersal of responsibility which makes it difficult for the private sector - or even some in public service - to identify where precisely responsibility resides. This is an important problem, since the provinces and their constitutional charges, the cities, together spend more than the federal government and are at least as important in determining the character of the business-government interface. At present, this confused and overlapping jurisdiction is particularly evident with respect to small business assistance, export promotion and industrial incentive programmes. Later we make recommendations on correcting these difficulties because we believe that business cannot be expected to play its full part in the development of Canada when business-government relations in any province sometimes involve two separate programmes offered by two separate departments of industry (or equivalent), many elements of which either duplicate or bear little or no relation to each other.

**The National  
Capital**

The separation of our national capital from our commercial and labour union centres is a characteristic shared with Canberra (and to a much lesser degree with Washington). While this was a decision taken for valid historical and ethnic reasons, Canada must constantly face the challenge of developing compensating practices to ensure that business and government people have the opportunity to interact and to move easily between the two sectors. In London, Paris, Rome or Tokyo, cross-fertilization takes place naturally. In Ottawa, the number of flights to and from Toronto and Montreal is only one tangible reflection of how much has to be done to create a structure where exchange can occur more readily and to leaven the "company town" atmosphere of our national capital.

**Bilingualism**

Finally, bilingualism and multiculturalism across a huge territory is unique to Canada. The balancing act involved in a bilingual and multicultural country has implications for all Canadians. Policies intended to promote national unity are not always recognized as being of productive value, and policies making for industrial efficiency may run counter to policies intended to promote national harmony.

## **B. Smaller Businesses**

In many ways, managers of smaller businesses (often owner-managers) are less advantageously situated with respect to their relations with governments than the managers of larger corporations. They do not have the resources, time or manpower to initiate and maintain effective representation to governments or even to gain entrée. Because of these problems arising from size, they must struggle to acquire and retain influence through business associations, a task which has been consistently difficult and frequently in vain.

The substance of small business problems with governments also differs, in degree and association, from the problems faced by large enterprises. Labour questions are generally more difficult for them, because most are too small to support the kind of career development, training, working conditions, and pension arrangements necessary to make employment with them more attractive. Hence they consider themselves to be, in a sense, in competition with government social security programmes. Smaller enterprises are also more affected by inflation, because they typically operate in competitive circumstances where they cannot increase their prices to reflect increased costs without adversely affecting their sales.

In terms of government policies to aid smaller enterprises, the last ten years have been eventful, although tangible results are less easy to identify. The Federal Industrial Development Bank was broadened to become the new Federal Business Development Bank (the FBDB) and a programme of the Department of Industry, Trade and Commerce to provide low-cost consulting services to smaller businesses was incorporated into it. Further, many provincial governments have developed extensive advisory services to assist small businesses in confronting particular regional problems and to take advantage of existing federal programmes. Finally, a federal inter-departmental committee has been at work, attempting to factor consideration of important concerns of small businesses into a variety of government programmes.

Notwithstanding these initiatives, it remains apparent that many owner-managers feel that they still have major problems with governments, as evidenced by the rapid growth of the "self-help" activities of the Quebec "Centre des Dirigeants d'Entreprise" and the representation activities of the Canadian Federation of Independent Business. To a substantial degree, the surveys of the Federation (which are employed to help persuade legislators of the broad desirability of policies beneficial to small business) appear to reflect the general concern most sectors of society have about current economic trends, particularly inflation and the level of spending by governments. But they also reflect something more: a perception that smallness is not necessarily inefficient (an assumption inherent in much economic theory) and that in an age of increasing bigness in human institutions, small businessmen can play a role in creating an economic environment which better reflects traditional human values.

Governments, particularly in those parts of Canada where economic life is synonymous with small business, have a significant stake in recognizing these changing perceptions. There is, of course, the public interest in the maintenance and growth of employment in these enterprises, which already employ a substantial component of the labour force. But perhaps just as significant is the role small and medium-sized businesses (particularly manufacturing enterprises employing up to 250 people) play in adapting the economy to new circumstances. Every big business was at one time a smaller business, a fact suggesting that national economic performance in the future is in part dependent on an appropriate climate for small enterprises now.

The question of how to achieve and then maintain this climate is, however, difficult. In the first place, small businesses do not want to be dependent on an extensive array of small programmes which are difficult to monitor, subject to constant change, and administered by public servants who are viewed (sometimes unfairly) as basically uninterested or incompetent in small business problems. Second, the number of small enterprises and the disparate nature of their ownership makes it expensive for governments to communicate with them in the way they can with larger enterprises. Accordingly, we suggest that the following principles be adopted with respect to small business policies:

**A philosophy for  
government  
programmes aimed  
at smaller businesses**

- government programmes should be aimed at facilitating the operation of small businesses rather than doing things for them which they can do themselves; this philosophy now permeates many programmes offered by the federal government and we commend it;
- where possible, programmes aimed at small businesses should work through the market rather than outside it. For example, those offering technical assistance should operate through existing consulting or educational institutions, rather than bureaucracies. The former are likely to be closer to the marketplace or the location of the firm than most government departments can be;
- in those cases where it is impossible to use the market system as the delivery device for small business programmes, users' fees or shared-cost funding should be involved. If the small businessman pays directly at least some of the cost, however small, he is more likely to be able to influence its design and delivery and he will use it at less cost - in terms of his own independence - than might otherwise be the case. We recognize and commend the degree to which this philosophy has been incorporated in federal programmes;
- governments, in their programme delivery policies, should recognize that the most valuable resource of many small businesses is the owner-manager's time. While the differentiation between federal and provincial business assistance programmes may, for example, seem clear to the

public servants running them, that clarity - if in fact it exists - is unlikely to be apparent to the small businessman trying to use them for the first and perhaps only time. He must study them to make a choice, he will have to talk in all probability to officials of several federal and provincial departments to be certain that he understands them, and he will have to explore several decision-making processes about which he is entirely uncertain as his application proceeds. Under these circumstances, he is as likely as not to avoid government programmes aimed at him.

Perhaps this burden on the very limited time of owner-managers is most important in connection with the multitude of forms and other requirements for information imposed upon them by governments. We outline this problem in greater detail in appendix III. We have also included recommendations which reflect the principles described above.

### SUMMARY

Our analysis of the business-government relationship underlines the fact that there are both serious problems of substance and opportunities to solve them. In our view, the most important among these problems and opportunities are:

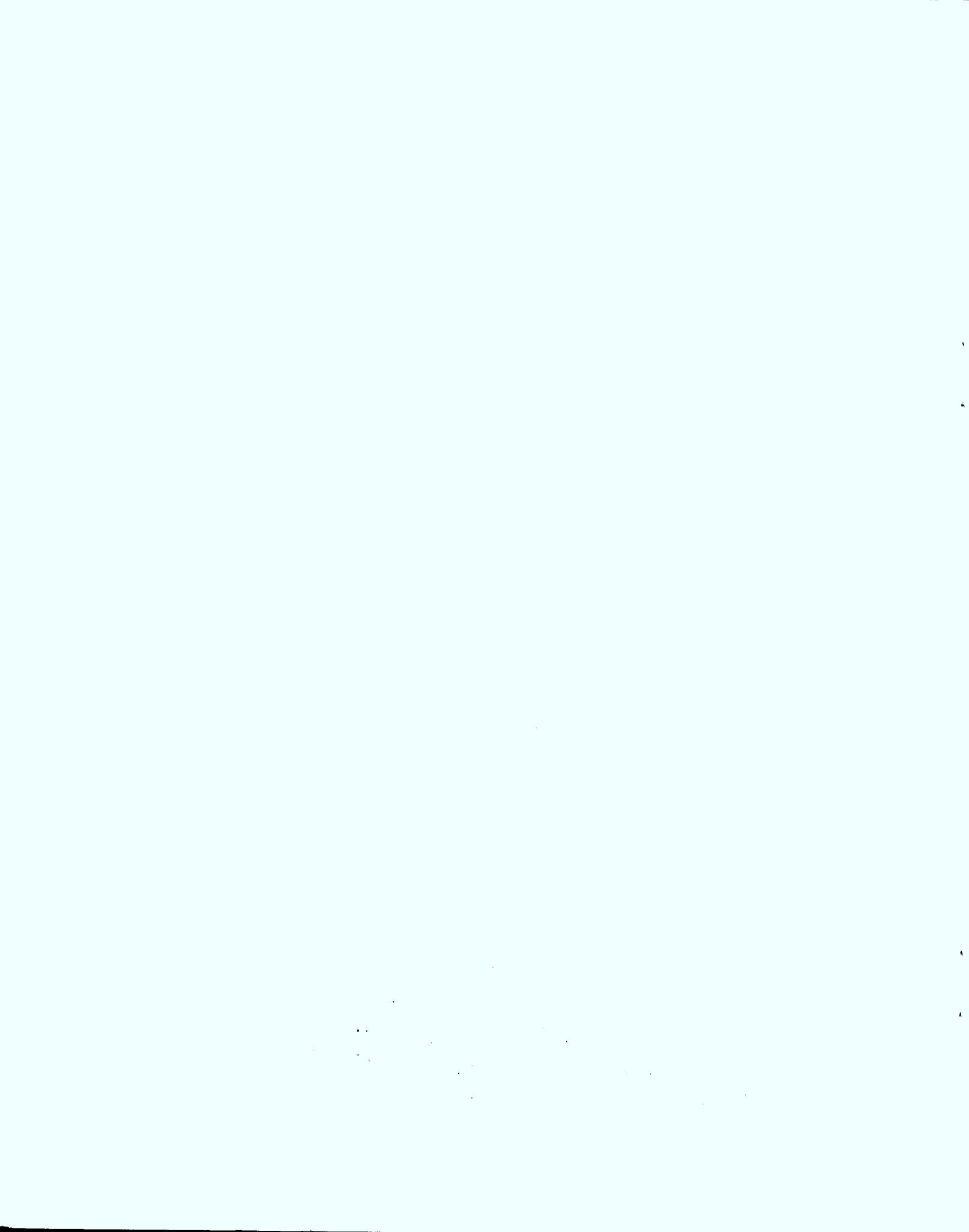
Areas where  
detailed  
recommendations  
are made below

- a forum to consider together economic challenges facing the country, leading to a better shared perspective on where the economy is going and suitable mechanisms to sustain a dialogue;
- a perception that the business-government relationship may be overloaded; this overloading is partly attributable to its use as a substitute for certain kinds of contact that business should have directly with its publics;
- the possibility that the effectiveness of business associations can be improved and additional methods developed of encouraging public understanding of business;
- the absence of determination to draw upon business - and indeed other groups - to help manage and advise governments more effectively on industry-oriented matters, particularly through the use of joint boards and more effective executive interchange;
- the challenge confronting both business and government of the international trend toward increased government-to-government involvement in international trade and investment;
- the possibility that the conviction that governments have become too big (held by most businessmen, as noted earlier) can be reduced by government policies aimed at contracting -out or "reprivatizing" some of its operations, with consequent savings;



- problems for business posed by unco-ordinated federal and provincial support programmes;
- the need to develop methods of encouraging more and better business research.

To this point, we have dealt more with the "how" of business-government relations than the "what". We have recorded perceptions of businessmen and public servants about their contacts with each other. We have outlined the processes each has used in attempting to build bridges to the other. We have concluded that these processes are inadequate, not because both groups do not want more effective consultation, but largely because both face formidable problems of co-ordinating and managing diverse organizations and complex constituences within peculiarly Canadian constraints. We now turn to our recommendations.



## RECOMMENDATIONS

Canada  
Business  
Relations  
Council and  
Consultation  
on Economic  
Policy

The keystone of our recommendations is the creation of a Canada Business Relations Council to monitor the business-government relationship and to help oversee the implementation of various specific measures to improve it (see below). But beyond that important function is the broader role that the Council can play in the further evolution of Canadian economic and social policies.

In the process of developing Canadian public policy, many disparate and even discordant interests must somehow be harmonized. In the past, this harmonization was to a degree achieved by interest groups associating themselves with a political party. Today, however, interest groups increasingly seek remedies outside party lines (e.g., environmental or women's movements look to no party affiliation to advance their causes) and traditional methods of resource allocation have been found inadequate in a mixed economy. Hence additional efforts at the orchestration of diverse interests must now be attempted.

Recent proposals for a major tripartite consultative or advisory body involving business, government and labour have brought various charges of "corporatism" and fears that the provinces, other interest groups and even parliament itself would have no comparable opportunity to contribute to the formulation of public policy. Yet governments of many other industrialized countries successfully involve various interest groups (including business and labour) in forward-planning and decision-making, as part of a process of achieving broad consensus about national goals, without calling into question the supremacy of the legislature. All such methods involve a cross-section of the private sector, supported by some type of professional staff, thereby creating the machinery whereby government thinking on current and potential economic issues is subjected to analysis, discussion, criticism and even amendment and endorsement. This process also leads to greater familiarity among private sector groups with problems of common concern, thereby reducing adversary attitudes by placing the main participants on the same side of the table.

While we have noted that examples from abroad may be helpful, institutions best suited to Canadian circumstances will not be found full-blown in other countries, but will be the product of our own unique national experience and needs. In developing a broader and more systematic consultative mechanism a start can be made by instituting the Canada Business Relations Council described below.

### The Canada Business Relations Council

#### Organizational Options

As noted in the analysis section of our report, the business-government relationship in Canada is not a "managed" relationship in that (1) neither governments nor the business community engage in a regular, widely known, and adequately planned process of communicating with each other; and (2) specific consultations by various federal departments with business are inadequately linked with the Department of Industry, Trade and Commerce. In theory at least, there are several alternative organizational approaches to these basic problems, including:

- (1) designating a "close in" group of civil servants in the Department of Industry, Trade and Commerce who would work for a fixed time with other federal departments, industry associations, provincial governments and individual companies to improve consultative mechanisms and to oversee the implementation of the various specific recommendations below;
- (2) appointing a mixed group of civil servants and executives seconded from industry to work for a fixed period to oversee the recommendations;
- (3) establishing a variously defined council of businessmen and senior civil servants to implement the recommendations and to monitor the business-government relationship;
- (4) creating a broader council of businessmen, ministers, and senior civil servants, which would be involved in both implementing the recommendations and in monitoring the business-government relationship, but which would have a permanent staff and some independence from government, derived from authority to publish reports on the relationship;
- (5) finally, a yet broader council with labour and possibly additional groups represented on it, to be part of a new continuing consultative mechanism now thought by some to be needed, especially when the current anti-inflation controls are removed.

Each of these alternatives has merits. The choice among them is complex. But some options can be eliminated fairly readily: for example, a task force consisting of civil servants only is unrealistic, because the relationship between business and government is the problem. Representatives from one side only cannot be sufficient. Designating a mixed group of civil servants and seconded business executives to work on the problem for a fixed time also appears unrealistic because it assumes that the task of improving government-business relations is a one-shot effort. We do not consider it so, as our analysis indicates. To be deliberately managed means, in part, to be managed consistently over a long period.

The immediate choice, then, is among the third, fourth and fifth alternatives. Our recommendation is the fourth (which may be seen as a stage in the search for improved mechanisms currently embodied in the Business Advisory Council of the Minister of Industry, Trade and Commerce). The difference between the third and fourth (we deal with the fifth later) is largely related to the degree of independence of the proposed Council. Substantial independence is required, because only a degree of independence will induce the more thoughtful and informed businessmen to participate. Also, when it comes to managing the relationship between the state and one part of a community, some independence is necessary if the individuals affected are, for example, to have some influence through a joint council, something which is essential to successful implementation.

We therefore recommend that:

(a) the responsibilities of the new Canada Business Relations Council should include:

Recommendations

- acting as the major focus for systematic government consultation with business on industrial and commercial issues; for example, its input should be available to the Minister of Finance at an early stage of budget preparations and it should arrange the post-budget briefings and quarterly meetings of economic researchers referred to below;
- encourage greater co-operation among business associations by arranging for joint research and the provision of research done by governments, where appropriate. In time, this could encourage the formation of a federation of business associations, if co-operation results in a significant improvement in the expression of business advice to governments;
- review and "digest" submissions to the federal government of major business associations and arrange for appropriate discussions with ministers about them;
- help develop ways in which the business assistance offered by governments can be made better known, especially to smaller businesses, through such possibilities as further decentralization and relocation of federal government services;
- receive reports from the industry sector consultative committees of the Department of Industry, Trade and Commerce and review particular problems whenever assistance might be helpful; and
- monitor the general state of business-government relations and report annually on them to the federal government;

- (b) to achieve these purposes, the Council should be organized as follows:
- have approximately 25 members, including 15 businessmen; it should involve the Ministers of Industry, Trade and Commerce; Finance; Labour; Consumer and Corporate Affairs (and others on an ad hoc basis). In addition, labour union and provincial observers should be sought on a rotating basis. Three or four meetings might be held annually with the "economic ministers" and occasional meetings with their deputies;
  - be jointly funded by business and government, in equal proportions (if this recommends itself to the participants); the co-chairman should be the Minister of Industry, Trade and Commerce and a senior member of the business community;
- (c) the present Business Advisory Council of the Minister of Industry, Trade and Commerce should be superseded by the new Canada Business Relations Council, but the new Council should make its recommendations to the Government through the Minister of Industry, Trade and Commerce;
- (d) the implementation of its recommendations should be overseen by the federal government, or by business representatives sitting as sub-committees, or by the Council as a whole in those cases where the recommendation requires joint action;
- (e) the Council should establish, as appropriate, sub-committees to deal with specialized subjects of interest to business and government (members of a sub-committee could come from outside the Council, but the chairman should be a Council member). For example, an international affairs sub-committee might be struck to help analyze the impact of changing international trade and investment practices on relations between business and governments within Canada and to assist the Minister of Industry, Trade and Commerce in development of appropriate Canadian responses;
- (f) the Council should have an Executive Director and small staff located in Ottawa; he or she should be appointed by the Council for a fixed term; and
- (g) the Council should have an independent research capacity to serve the essential needs of the Council for information and analysis, preferably by joint funding of projects commissioned with independent institutes and through co-operation with the Economic and the Science Councils.

In introducing our recommendation for a Canada Business Relations Council, we referred in passing to its potential role in a broader, more systematic mechanism for government consultation with major interest groups. We noted a fifth option for consultation: a tripartite council. How a tripartite or yet wider consultative council or agency might be developed is, however, beyond our present mandate. Nevertheless, we offer as one possible approach to such an eventuality the creation of two parallel councils: one for business and one for labour, each of which would deal with problems of particular concern to it, preferably in the presence of observers from the other group (e.g., the Canada Business Relations Council might be the primary place for discussions of tax policies affecting business and a labour-government council the primary place for the review of the role of government in labour relations). We imagine that if two such parallel councils were soon put in place (with some degree of common membership or at least an exchange of observers), it will be found that before long they are working and meeting together on, for example, such a subject of prime common interest as productivity. Joint research, sub-committees or projects and joint meetings with government might soon become the usual practice.

We consider this evolutionary approach to be particularly important for the present. Both labour and business have recently responded constructively to the Prime Minister's invitation to contribute their thinking about policies and institutions for the post-controls era. This constructive response, together with the federal government's awareness that new economic values and institutions are needed, offers a rare opportunity. During the time ahead, deliberate change to our economic institutions may be possible with far less resistance than is normally the case in a system containing many contending elements. Conversely, however, this rare and perhaps transitory opportunity could be lost if inappropriate institutions are quickly formulated without recognizing that traditional behavioural patterns based upon conflict among interest groups will not change overnight. Further, government, labour and business need time to generate new policies suitable to a quite different set of economic conditions. Additionally, the attitudes of other major interest groups and of the general public on such an important institutional change as new consultative mechanisms should also be ascertained, a step which can be taken by, for example, public hearings while the two parallel councils for business and labour as recommended above are functioning.

However, whether a decision is made to establish first a Canada Business Relations Council and a parallel group with labour - as we recommend - or to attempt to move at once to a formal tripartite entity, a number of specific opportunities to improve understanding and co-operation between business and government remain for action. It is to those additional recommendations that we turn now.

### The Shared Perspective Problem

Government  
and Business  
need to start  
from same data  
to reach  
compatible  
conclusions

A common perspective of where the economy is and where it is going, and of what are the priorities of the day, is an essential prerequisite in bringing the business and government decision-making processes into closer alignment. It is also an essential step towards improving the nature and the quality of the business-government interface. Experience of other western countries shows that a reasonable degree of consensus on basic economic trends, as well as on the challenges and opportunities inherent in them, can be reached and that such a consensus is conducive to more harmonious relations among government, business, labour and other interest groups.

At present, apart from periodic reports published by the Economic Council and the Bank of Canada and occasional speeches of cabinet ministers, there is little exchange or testing in any regular, organized fashion between business and government of critical information about the economy's aggregate performance. It is difficult to see how business, government, labour and other groups can agree on prescriptions for economic problems if they cannot even agree on their diagnosis.

The Conference Board in Canada provides valuable services of this type, primarily for a private sector audience, but it is clear, because of differences in organization on certain issues between business and government, that its efforts are necessarily insufficient (e.g., on the subjects of inflation accounting and the current state of business liquidity, there is little agreement between business and government leaders). Yet on these issues, which are amenable to quantitative measurement and analysis, disagreement should be minimal.

This difficulty can be remedied. We recommend (in addition to strengthening the various federal departmental mechanisms noted in appendix II):

- (a) Periodic briefings of the business members of the Canada Business Relations Council about long-term economic trends should be undertaken. These briefings can contribute to the pre-budget consultations sought by the Minister of Finance and might also include a post-budget review for the benefit of private sector leaders, again led by the Minister of Finance, and arranged in a regular schedule following each budget presentation;
- (b) At the level of officials, we recommend that a quarterly review be organized to compare economic forecasts and other analytical information. Senior staff of the federal Departments of Industry, Trade and Commerce and of Finance, the Bank of Canada, the Economic Council, the Conference Board, the Institute for Quantitative Analysis, the C.D. Howe Research Institute, and business and labour leaders should be invited;



- (c) These initiatives should be undertaken for a fixed period - say three years - and should not be evaluated before that time. Our discussions with business leaders underline that any process of briefing must become known and understood for a considerable period before those involved in it can be expected to contribute fully;
- (d) Government policies respecting the public dissemination of internal research should be reviewed with the objective of increasing the availability of such material where possible. In industry-oriented federal departments, we recommend the establishment of a committee to review each internal research project completed. The committee would, in each case, make recommendations respecting availability of the report to the public.

### Are Business-Government Circuits "Overloaded"?

Many recent economic functions of government are in fact regulatory activities. The growth of the federal Departments of the Environment and of Consumer and Corporate Affairs, the Anti-Inflation Board, the Foreign Investment Review Agency, and various provincial departments and agencies such as rent review boards, are all examples of organizations whose major purposes include the regulation of business.\* It is encouraging that at least the federal government, according to the White Paper "Attack on Inflation" of October 1975, intends to reassess the costs to the private sector of government rules and regulations in the context of their benefits to society at large. It is to be hoped that this attitude will find tangible expression in actual reviews and, further, lead to emulation by provincial and municipal governments.

Part of the  
solution to  
business-  
government  
difficulties is  
more business  
initiative

In view of the magnitude of the impact of regulation by governments, we consider it important that Canadian businessmen ask themselves if there is any action that they could take - individually or collectively - to achieve directly the purposes that governments attempt to achieve indirectly. Are there activities that business can undertake in connection with its "publics" which would help achieve national purposes without growth in bureaucracies? Can some degree of the burden of regulating economic activity be shifted back to the shoulders of the organizations principally responsible for production and distribution? In a real sense, are we getting too few results from the business-government relationship because we are asking it to do too much?

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\* Evaluating the cost/benefit impact of various types of regulation is now a minor academic industry in the United States, but very little such research seems to be done in Canada. Perhaps stimulus will be found in a recent report prepared for the Law Reform Commission which identifies various federal statutes (not including regulations) containing 14,885 separate discretionary powers, enabling persons who are subordinate to Parliament to exercise independent judgement. Prima facie, there would appear to be a rich field here for research by our universities and institutes. Similar work could be useful with regard to provincial and municipal regulations as well.

Our answer to these important questions is a qualified, tentative "yes", in the sense that many useful but largely inchoate ideas are circulating which could have the effect of linking businesses more closely to their customers, shareholders and employees, while at the same time broadening industry contact with other groups in society interested in industrial operations. The following are cited as areas that should, in our view, receive more study. A few are currently under review by the Royal Commission on Corporate Concentration, but all merit serious consideration not only for their inherent interest, but for the opportunities that they may offer for greater direct understanding between the public and business:

- improved employee and public communications about the working of the market system, so as to increase understanding about, for example, the role of profits as a source of investment;
- ombudsmen or other non-corporate representatives on boards of directors;
- employee representatives on boards and management committees (as was the case in crown corporations during the Second World War) involving greater employee responsibility for company success including profitability (and, consequently, the ability to invest);
- broader public accounting policies, aimed at isolating information useful to particular publics (e.g., environmental information) rather than leaving such interest groups little option but to press governments to extract such information;
- improved disclosure principles (prepared and largely administered by business associations) including greater timeliness and comprehensibility to the layman;
- annual "social audits" to outline indirect effects of industrial and commercial operations; and
- more self-regulation within the limits of current anti-combine legislation (e.g., the recent undertaking by banks to regulate certain forms of their advertising).

We do not underestimate the many difficulties involved in studying and implementing some or all of these suggestions and, indeed, we recognize that certain types of regulation must be undertaken by governments both for the public and company interest. But these difficulties must be viewed against the only apparent alternative, increasing regulation by governments. The market system has succeeded in part by its ability to adapt to broad social change, but the experience of the last decade suggests that much recent adaption has been forced by governments. We consider that more internally generated adaption, particularly respecting social impact, is in order to avoid business finding itself increasingly trammelled by central planning and management of the economy.

In light of these considerations, we recommend that:

**Recommendation**

- (a) A sub-committee of the Canada Business Relations Council should undertake a complete review of the matters enumerated above to be completed within a year, taking into account the work of the Royal Commission on Corporate Concentration. Upon its completion, the review should be released to the public for comment and advice;
- (b) Business associations should undertake a searching review of the confidentiality requirements imposed by business on the administrative and statistical data they supply to governments. The major purpose of this review would be to increase the amount of such information available to the public, although it would also make the collection of data much easier for all concerned (including respondent firms) by lessening the number of different confidentiality standards applied to the data, a development which in turn would make it easier for only one government agency to do most of the collecting.

**The Role of Business Associations and other Institutions in Encouraging Greater Understanding**

We have noted what appears to us a failure, upon occasion, of business associations to prepare well-documented, broadly-based positions in their advice to governments. As a minimum, we suggest that existing organizations might find it profitable to co-operate more to ensure that, on major issues of policy, they do the kind of research and make the kind of presentations that would be impossible for any one such organization to undertake. In short, from a business point of view, it is important that business leaders manage their relationship with governments, as opposed to continuing the present series of energetic but ad hoc discussions held by numerous different associations with only those parts of governments of direct concern to them.

Beyond that important step, however, remains the question of whether a merger of at least the horizontal associations (as is currently the announced intention of the U.S. Chamber of Commerce and the National Manufacturers' Association) or a looser federation of both horizontal and vertical business associations (along the lines of the Japanese "Keidanren") would enable business to contribute more effectively to the formulation of public policy. We believe so. It is objected that the particular interests of certain industries might be lost in a merger (although not necessarily in a federation) or that a single new association would inevitably be dominated by its larger members. No doubt these and other objections have some validity. But their satisfactory resolution cannot be beyond the fertile imagination of the business community. In any case, this type of objection must be outweighed by the contribution that a well-financed federation, utilizing the professional research capacities of the various institutes, can make through the compilation of data, surveys, channeling of opinion to and from governments and co-ordinating the currently dispersed, inchoate and sometimes unsophisticated consultative and

educational efforts of individual associations. There is some evidence of growing support within the business community for a more collective approach to the promotion of greater understanding and co-operation between business and governments and a wider appreciation of the role of business in society. We hope that this impetus will gain further momentum through a better focussed business leadership, a development which in our view would be welcomed by governments.

**Business and  
Government  
must consider  
modified  
internal  
operating  
policies**

There is a further basic problem involved in the lack of understanding between business and governments. Many of our interviews and much of our research has indicated that businessmen and public servants do not know enough about each other or about the environment of the other (partly a result of the separation of the national capital from the commercial centres). In the case of senior corporate officials, understanding of government structures is particularly important to conserve time which would otherwise be spent "probing" the structure to locate decision centres and to reduce uncertainties. In the course of our interviews, however, it became clear that many businessmen have only vague notions about the structure and functioning of governments and their intentions. We consider that old, time-honoured clichés like "talk to the Minister, don't settle for less" or "all our problems would be solved if C.D. Howe were still around" have about as much applicability as old clichés about business would have if applied to dynamic modern corporations. Similar public sector clichés exist, which are at least as irrelevant to current problems as the business clichés.

To minimize this problem, we recommend that the feasibility of the following approaches be examined in detail:

**Recommendation**

- (a) Goal-setting and personnel evaluation procedures in industry and government should be modified to facilitate the dialogue. In particular, relations with government should be made an explicit function (along with the usual financial, marketing and other activities) of most senior executive positions in industry. Similarly, public service goal-setting and personnel practices in industry-oriented departments should be modified. One such modification should be that an important consideration for promotion to senior executive categories be experience outside Ottawa, preferably in business or other private sector organizations ( a rough analogy with the bilingual requirement comes to mind);
- (b) Both governments and businesses should consciously encourage initiatives which have been taken recently by institutes to make governmental processes more comprehensible to businessmen. Both the immediate and ultimate effects of actions by governments on the bottom line certainly merit greater business attention. If many businessmen so directed themselves, we believe that the bigness or complexity of governments would not be the

problem it apparently is now. To some degree, at least, the perception of bigness is due to unfamiliarity (indeed, many business and labour organizations appear huge to the public for many of the same reasons that governments appear so large and complex to businessmen). The best method of teaching businessmen more about government, we believe, involves credible third party organizations. Their interest in explaining government organization and policies is somewhat more objective than that of civil servants or politicians. The public interest would be well served, we believe, if governments were to make greater use of them and provide them with additional support. As interlocutors between business and governments, such institutions can play a valuable role.

### Businessmen in Government

Most of our discussion, to this point, has concerned problems. The business-government dialogue also exhibits some positive features. We now review one of them: the employment of businessmen and others from the private sector on joint boards and commissions and their participation in the Interchange Canada Programme.

Canadian history has a number of examples of prominent businessmen who, through government corporations and commissions, have made distinguished contributions to the betterment of our country. While not as well known, there are many more examples of crown corporations and agencies where businessmen have been unobtrusively contributing their talent to the advantage of the whole community.

More outside  
opinions would  
improve  
government  
effectiveness

At the federal level, the growth in crown corporations has been extensive in recent years (although not at the rate of the economy as a whole). Nevertheless, in the United States the use of advisory and other boards has been more extensive and formalized than in Canada. Departments in Washington typically have a variety of advisory committees covering most facets of their operation (although their roles are today subject to greater public debate than before).

In terms of broad usage of community talent to manage certain public activities, a more striking example is Sweden. Organized management and labour are there represented in numerous agencies forming the backbone of public administration. Many functions, which in other countries are performed by government departments, are divided among Swedish ministries primarily concerned with policy planning on the one hand and separate, semi-public agencies largely funded by government carrying out the actual administrative functions on the other.

Here in Canada in 1968, the Prime Minister stated, "we require a more flexible relationship between the public service and the business community, the professions, the labour unions and other occupational groups.... While in some countries it is a common occurrence for a businessman, for example, to move in and out of government employment, in Canada it happens very rarely." Our belief is that more can be done in Canada to draw on business talent than has been done in the past, notwithstanding the good record in certain areas. Several advantages are cited for recruiting business talent to serve on boards and agencies along with government representatives, including the possibility of more flexible administration, more independence of partisan politics, the ability of such organizations to respond to particular sectional interests, and the important opportunity they provide for interaction between individuals and groups in society who may later find productive the ties they have developed. Joint boards can also contribute to bridging the gap resulting from the geographic separation of Canada's capital from its commercial centres. These advantages are partially offset by certain disadvantages, including lessened political accountability due to the independence of the board, the difficulty in monitoring a large number of separate small operations, conflict of interest problems and the tendency for such organizations to outlive the purposes for which they were originally intended.

However, the advantages, particularly the opportunities for interaction between people from different parts of the community, clearly outweigh the disadvantages. In any event, the disadvantages can be offset by certain policies which should be adopted along with decisions to expand the use of these organizational forms in government.

Accordingly, we recommend that:

- (a) When conditions are suitable (i.e., when the government activity concerned is readily identifiable and separate from others), as many government programmes as possible should be performed with advice of joint boards or under the scrutiny of a joint advisory group. In circumstances where a joint board is impracticable, departments offering industry support programmes should establish more ad hoc groups of advisors to meet as required to help evaluate a particular programme and to suggest methods for improvement;
- (b) In industry-oriented departments, because many of their operations are entirely dependent on close contact with industry for their success, an annual assessment of all programmes should be conducted as part of the budgetary process to determine if formally constituted boards or other advisory mechanisms should be developed for each major programme. The Centre for Turnkey Projects and Joint Ventures in the Department of Industry, Trade and Commerce is one example of a programme for which an advisory board would be helpful. An additional interesting

## **Recommendations**

possibility for a joint advisory board has been proposed in the recent "Sharwood Report" which evaluates the financial assistance and incentive programmes of the Department of Industry, Trade and Commerce. The report recommends, inter alia, further consideration of the idea of a "National Projects Review Board" with private sector participants (including labour) to recommend to the federal government how large national investment projects should be handled.

- (c) Equally, periodic reviews, perhaps decennial, might be undertaken by a Senate committee or other body for the purpose of recommending to government whether particular agencies, boards or programmes relating to business remain relevant, whether their administration is effective, and whether they should be substituted or terminated;
- (d) Additional methods of bringing knowledgeable persons from the business community - in part as an alternative to increases in the size of public services - should be explored in a systematic, thorough way and then used to supplement regular personnel management procedures. These methods (which should not be pursued in the expectation that they would lead to reduced expenditures) would include more hiring by contract for specific term appointments; improved methods of minimizing problems resulting from difficulties in transferring pension credits and security; etc. As well, some existing government policies which hinder "interchange", such as conflict of interest regulations and the right of public servants to preferential consideration for job openings, should be reviewed to determine if their impact can be reduced for certain specified positions;
- (e) The present career assignment and executive interchange programmes should be expanded greatly to include officials from labour unions and assignment to non-profit research institutes and major business organizations. The feasibility of expanding the present limited exchange should also be reviewed;
- (f) To help ensure that appointments are of real meaning, the government, acting through the Chairman of the Public Service Commission, should convene a conference involving industry, labour, academic, provincial and municipal officials to assess the present Interchange Canada Programme and to agree upon methods for its expansion so that it becomes a national activity of greater significance.

### **Joint Mechanisms to Promote Trade**

In the analysis section of this report, we noted the various international trade and investment trends which impel Canadian business and government toward each other. How can they co-operate more effectively to meet these rapidly evolving external challenges?

**Role of**  
**Canadian**  
**Export**  
**Association**  
**and other**  
**organizations**

A first step is to enhance the resources, authority and paramountcy of the Canadian Export Association (CEA). The Association has close working relations with the federal government, but a good research capability, while originally foreseen, has not materialized (presumably the result of financial limitations). Hence the CEA, while generally adept at identifying issues, has not always been able to help its members anticipate likely future trends in international trade or always to relate them to the preoccupations or capacities of other Canadian business associations and research institutes. Further, greater public understanding of Canada's need to export might also result from yet closer co-ordination between the CEA and such associations. In our view, the CEA staff should be expanded and moved to Ottawa, partly to improve the two-way flow of information (supplementing the useful business-government meetings now held primarily in Ottawa). In other words, the relationship between the federal government and the CEA should become more formal (not in the stultifying sense, but in the disciplined and consistent sense).

The Canadian Association for Latin America (CALA), funded by both government and business, is unique in that there are no other business organizations devoting themselves to regional trade in a similar way. Compared with European and Japanese practices, Canada has been remarkably laggard in establishing organizations for trade with eastern Europe, the Middle East or Africa; nor has a Canadian group yet been established to underpin the evolving economic relations with the European Community. Several bilateral chambers of commerce exist without much substance, some little more than on paper. Co-ordination among even such groups as do exist is sporadic, if it takes place at all. Even the pioneering CALA has no formal connection with the Chamber of Commerce, the Canadian Manufacturers' Association, or even the CEA.

The federal government should join with business groups in encouraging the establishment of business or joint business/government trade associations for eastern Europe, Asia, the Middle East and Africa (as in the case of Latin America). The more intimate economic and industrial relations which we are seeking with the EEC and Japan - the "Third Option" - will require active participation by Canadian and foreign industry if they are to be successful. The experience of those who participate in trade missions should be sought in establishing regional associations, all of which should be related to the CEA.

With regard to turnkey and capital projects abroad, Canadian companies, while competitive in a number of sectors, are often reluctant to incur the potential risks involved in major projects without some measure of government support. An organized dialogue between the Department of Industry, Trade and Commerce and the business community can be an important factor in promoting participation in projects abroad and in deciding which possible consortia should be encouraged. An example from Britain may be helpful in establishing a joint business-government advisory group on such major projects. In Britain, the Overseas Project Group of the Board of Trade, which promotes participation in projects abroad, is assisted by an Advisory Panel consisting of businessmen from companies active in projects and a banker as a contact with the financial community.



Canada possesses banks of major size in international terms, in many ways well equipped to finance initiatives abroad by trading companies, consortia or other exporters. Yet this advantage has not been fully reflected in our sales which have been limited partly because our interest rates on term financing are generally higher than those of our competitors. Proposals to overcome this disadvantage are currently being reviewed, but whatever eventuates, it is obvious that the banks and the business community will need to work more closely with government if Canada is to compete more effectively for major projects.

The Combines Investigation Act permits companies to co-operate for the purpose of export, providing such agreement is unlikely to limit the volume of exports of the product, restrain the export business of another competitor, restrict market entry or "likely to lessen competition unduly in relation to a product in the domestic market". This last qualification appears to have had the effect, in practice, of hindering such export agreements because of possible adverse effects at home. This is an area where early clarification or revision of existing requirements could have real benefit in terms of facilitating a stronger Canadian export capacity through permitting greater co-operation among companies.

In light of these considerations, we recommend that:

- (a) a sub-committee of the proposed Canada Business Relations Council be established, to ensure that all business-government interests related to trade are comprehended;
- (b) specifically, this sub-committee should:
  - encourage the formation of joint government/industry trade associations for those major regions for which they do not now exist, with priority on the Middle East, Europe and Japan;
  - help to ensure that all such regional associations are co-ordinated with the CEA and other organizations active in encouraging trade; and
  - serve as an advisory board to the Centre for Turnkey Projects and Joint Ventures of the Department of Industry, Trade and Commerce.
- (c) the Canada Business Relations Council seek clarification of policy on export consortia and, if necessary, promote amendments to the present Combines Investigation Act to encourage greater cooperation among Canadian exporters.

## Contracting-out and "Reprivatization"

Some months ago, the Prime Minister stated:

I believe all Canadians want their governments to have adequate strength and power to protect the public interest; and that therefore the legislative and regulatory aspects of government activity might well have to increase in the future. But I see no intrinsic reason why governments should stay forever in the business of providing some services which could be provided by the private sector.

Perhaps  
some  
government  
responsibilities  
can be  
transferred

In our analysis above, we described the extent to which many businessmen are concerned that governments have become too big or are attempting to do too much. Further study should be made, as a matter of priority, of policies aimed at enlarging that portion of government activity which could be contracted out to business or other private groups (e.g., universities), which could be jointly funded with them, or which could be placed in private hands completely.

This opportunity is, in a sense, related to the decentralization or relocation policies now being emphasized by the federal government. Geographic decentralization can help economically disadvantaged areas by locating government operations outside Ottawa. Administrative delegation under strict arrangements could have a similarly positive effect by stimulating business and other private sector groups across Canada to involve themselves in those public functions which need their experience and judgement.

Much has been written about the widespread concerns that public institutions are becoming too large and isolated. "Re-privatization" and contracting-out can contribute to a reduction in such concerns. The problem is to develop a commonsense approach to broadening private sector participation in government operational activities in ways which enhance efficiency and avoid serious disruptions in service and performance. To achieve these objectives, we recommend that:

### Recommendations

- (a) An initial review of all relevant departmental operational activities should be co-ordinated by Treasury Board to identify specific areas where potential for more contracting-out, "reprivatization", or joint funding exist (including the attitude of public service unions or associations);
- (b) As a prelude to its annual planning cycle, each department should be asked to examine the potential areas identified by the Treasury Board study and either explain why they should not be reprivatized or contracted-out or commence plans to do so;

- (c) When a new activity in government is contemplated, it should first be reviewed to determine whether parts of it can be contracted-out. If that is impossible, then the proposed new activity should be reviewed to determine whether a joint advisory or management board can be created in connection with it. Only when this possibility is exhausted should the proposed programme become part of a normal departmental structure;
- (d) Treasury Board should develop a way of making public periodically its reviews of the progress of all such efforts.

### Overlapping Programme Structures

There are  
too many  
unco-ordinated  
cooks  
preparing  
the broth

We have earlier noted the particular challenges placed on the relationship between business and government by the complex structure of a federal state. A major challenge of this type is programme overlapping. In Canada, the powers of the provincial jurisdiction are such that their actions can also have implications far beyond their boundaries and, indeed, even beyond Canada's borders. To minimize both internal and external problems, a much closer relationship between federal and provincial industrial programmes is required. Hence we recommend that both jurisdictions co-ordinate their programmes so as to avoid overlap or duplication of effort and waste of human and financial resources. It should, for example, be possible to reach agreement with each province on how federal export promotion, small business assistance and industrial support programmes will relate to similar services offered by the province.

To deal with these issues - the effects of provincial actions beyond provincial boundaries and overlapping programme structures - we recommend that:

- (a) The Department of Industry, Trade and Commerce should negotiate agreements or other procedures with the provinces for increasing the rationalization of federal and provincial programmes. Using such procedures, it should be possible to agree with each province on how federal industrial assistance programmes will relate to similar activities of the province. While this suggestion may, at first, pose problems, we feel that it is especially timely, given the financial constraints facing governments in Canada. For example, there is no reason, other than perhaps to give somewhat greater expression to their regional interests, for provinces to expand their overseas representation when fully developed federal services are already in place. Similarly, we see little reason why businessmen should have to deal with two layers of bureaucracy, each offering similar consultant services to small firms. It is the same taxpayer who pays in the long run;

### Recommendations

- (b) As part of the broader federal government policy of decentralizing and relocating its activities, the Department of Industry, Trade and Commerce should review as a matter of priority which of its services to business can be further assigned to its regional offices and how those offices can best be strengthened. In our view, major benefits would result both to Canadian businesses and to the knowledge and expertise of the Trade Commissioner Service if the regional offices were largely or even entirely staffed by Trade Commissioners;
- (c) We suggest also that the Department of Industry, Trade and Commerce could deal more extensively with certain specific regional problems associated with industrial and commercial matters than is now the case. Assisting the passage of ownership of small businesses to the next generation is a serious problem in those parts of Canada where the economy is dominated by small or medium-sized enterprises; similarly, bolstering the position of small businesses in those communities where they are the most important component of its social and economic life is a major issue in many Atlantic and prairie communities;
- (d) The federal Interdepartmental Committee on Small Business should expand its recent policy of inviting private sector representatives by including representative provincial participants. The Department's regional advisory committees could more actively monitor the Government's relations with the local small business community and the Federal Business Development Bank could accelerate and expand its local information and consultant services through its eighty branches.

In our analysis, we indicated that one of the major frustrations of businessmen concerned with federal government consultative processes is the compartmentalization of departmental mandates and an inability on the part of some departments to speak knowledgeably about matters relating to others. To minimize whatever difficulties of this kind may exist in the Department of Industry, Trade and Commerce, we recommend that:

**Recommendations**  
**for Department of**  
**Industry, Trade &**  
**Commerce**

- (a) All the recently established industry sector consultative committees should have at least one senior representative from other concerned departments (particularly the Departments of Finance and of Regional Economic Expansion); the committees should also invite the participation of labour so as to render themselves more truly representative and to encourage greater common understanding of sectoral problems; and

- (b) The Department of Industry, Trade and Commerce should give a high priority (in staffing and financial terms) to the development of a greater capacity to review and influence other federal department's programmes related to business and their likely impact on the business environment.

### **SMALLER BUSINESSES**

We have earlier referred to the particular problem facing smaller businesses, suggested some principles which should underlie government assistance programmes and noted the current wide variety of such programmes. These include the advisory services of provincial governments; the Counselling Assistance for Small Enterprises and loans of the Federal Business Development Bank; the Technical Inquiries Service of the National Research Council (which operates in conjunction with provincial research councils); and many other activities administered by federal and provincial departments concerned with industrial and commercial development. Universities, community colleges and professional institutes or organizations are also involved in a variety of activities designed to upgrade the skills of small businessmen. In our opinion, to judge by all these initiatives, the intentions of governments and educational institutions have been laudable.

We therefore consider that the problems smaller businesses have with governments are attributable more to programme delivery and philosophy than to any fundamental lack of interest or gaps in the present structure. Accordingly, we recommend that:

**Specific**  
**Recommendations**  
**Regarding smaller**  
**Businesses**

- (a) The departments of industry (or equivalent) of the federal and provincial governments should review whether there are ways in which joint "storefront" facilities can be developed to house local offices of all major small business assistance programmes. We consider that the development of such joint facilities would produce greater co-operation between federal and provincial services, without any real danger of confusion in responsibility. It should also result in improved coverage for programmes at both levels;
- (b) Intensive efforts should be made by the Federal Business Development Bank to publish research information for wide distribution to owners of small businesses. Industry ratios and other indicators of general performance by industry would be particularly important. This service should be designed in close consultation with the major small business associations;

- (c) In developing new government programmes for smaller businesses, particular attention should be paid to the need to facilitate transfer of ownership of firms from one generation to another and to the need to buttress smaller businesses in communities where they play a dominant role. In cases of this type (particularly common in the Prairie and Atlantic provinces), the community often fails to outlive its last general store or hardware outlet; consequently, the social cost of business failure is usually high.

### **Business Research**

#### **Lack of business research in Canada**

As was the experience of the Royal Commission on Corporate Concentration and the Commission on Canadian Studies (sponsored by the Association of Universities and Colleges in Canada), we have found that on many Canadian business subjects competent research is either weak or lacking. Methods by which the cost and benefits of regulation can be assessed and factored into policy decisions at an early stage is but one example; others include the roles and operations of business associations and relations between various provincial governments and their business communities. In reviewing this issue of business research, the Commission on Canadian Studies stated:

A further problem that appears to have resulted from this situation [ i.e., heavy reliance by Canadian universities on foreign faculty in business schools ] is the relative neglect of writing and research of special relevance to Canada in the business and management field.... in correspondence with the Commission, several deans of schools of business studies expressed concern about the lack of research, of textbooks and of scholarly publications dealing with Canadian topics and situations.

We concur with the comment of the Commission that "research programmes at Canadian business schools need to place more emphasis both on Canadian problems, practices and institutions, and on those of countries other than the United States.... Encouragement and support are needed for research and teaching that are directly related to the facts and processes of Canadian business and management".

We consider this paucity of research to be serious. Hence we recommend that:

- (a) government research programmes should be given a high priority in terms of the contracting-out and "reprivatization" recommendations made earlier;
- (b) a major onus rests with business to channel its research needs to Canadian sources and to engage, whenever appropriate, in their greater joint support with governments;

- (c) In addition to the initiatives of the Department of Industry, Trade and Commerce to encourage business studies and research at certain universities, an annual award should be given for the best research project on business matters done at each university (as the federal government does for literature, outstanding public service, etc.). This award programme, to be administered under the Business Relations Council by a joint committee with business, government and university representation, should include several categories of subjects, changing as new research priorities emerge or are anticipated.





## CONCLUSION

Manifestly, government activities affect Canadian business. Some are seen as supporting and promoting business; others are seen as burdening and restricting it. There is a continuous debate over whether current practices are optimal. Some would have us believe that governments in Canada are in the pocket of business; others that the business is so restricted and so devoid of political power that it is losing its dynamism both at home and abroad. Still others contrast the "co-operative" attitudes of business and governments in other industrialized countries with the adversary relationship depicted in Canada.

We have surveyed relations between business and government in Canada and we have found them wanting in several respects. But does that really matter? To those Canadians who regard business and government as composed of virtually indistinguishable élites working against the interests of their fellow citizens, that relations are strained is presumably a matter of some indifference. However, the political process would suggest this is not a widely held view. In fact, antagonism and misunderstanding among the three major actors in the economy - business, government and labour - prevent the full realization of the public benefit in an efficiently managed economy. Effective co-operation among business, government and labour is the central requirement for coping with most of the major problems confronting Canadian society today. In future, relations among the three groups will assume yet greater importance, affecting some of the most fundamental questions facing our country, including:

- investment versus consumption
- long-term versus short-term benefits
- growth versus real growth
- free allocation and distribution versus planned
- centralized decision-making versus decentralized
- competition versus co-operation
- freedom versus authority.

The economic problems and challenges facing Canada, both at home and abroad, have understandably led to the question whether their solution lies partly in greater understanding by the principal interest groups of how we came to be where we are and how we can best go forward from here. To say that existing institutions are adequate to bring about that greater understanding is, on the evidence, doubtful. Equally, however, the existing institution of parliament remains the sine qua non of our political system. The question then becomes whether we can fashion additional methods of consultation which, while observing the primacy of parliament, will enable the major interest groups in the economy to be better informed and to make their own ideas better known to government.

This, in essence, is the intention of our recommendations insofar as the business community is concerned. If they are implemented, we are convinced that "participatory democracy" will take on additional meaning and that the public good will be served by more effective private and public sectors. It will, however, remain to devise the details of yet more comprehensive understanding involving business, labour, and other interest groups with governments. If our report also serves as a step in that direction, we shall be well satisfied. Perhaps we have done something, as Gladstone once said Cobden did for free trade, "to set the argument on its legs".

## APPENDIX I

### Relations Between Business and Government in other industrialized Countries

A wide variety of mechanisms characterize the ways in which relations between business and government are conducted in other member states of the OECD. The following are illustrative notes about some examples.

#### AUSTRALIA

The Australian Government, in emphasising consultation with industry in the development of government policies, has established a number of industry panels. They provide the Government with advice on the problems faced by industry sectors and the measures the Government should initiate to overcome them. Panels consider such matters as tariffs, import problems, industry rationalization and availability of raw materials. Membership on panels is drawn from industry associations (which appear representative and well organized), labour unions, consumer interests, importer associations and the Department of Secondary Industry (which provides the secretariat). A panel can investigate matters relating to the sector under its responsibility and present its assessment of reports by the Industry Assistance Commission (see below) to the Minister of Secondary Industry. After a panel's report has been presented to the Minister, it is released to the government caucus, which can take it into account in examining new industrial policies proposed by Cabinet.

The Industry Assistance Commission (IAC) was established to assume the role of the former Tariff Board and take on additional responsibilities in industrial development. Although IAC has an advisory function, the fact that it reports to the Prime Minister and that its findings are made public lends it greater influence. The Government expects to attract people from the business community to serve as Commissioners. IAC has the mandate of assisting the Government in developing policies for improved industrial efficiency and regional development. It is required to undertake a systematic examination of the continuing relevance of the objectives of particular sectors and the effectiveness of existing assistance measures, as well as recommend future, long-term policies for those sectors.

A Green Paper of October 1975 (the "Jackson Report") reviewed problems faced by Australian industry and proposed that better machinery be established to increase the involvement of government, industry and universities in the system of decision-making. Some of the new mechanisms suggested are:

- A Premiers' Conference to seek common ground on the roles of the federal and state governments regarding the development of manufacturing industry and to lay the foundation for a system of industrial development agreements between them;
- Industry Councils to develop proposals for particular industries facing serious problems. Representation to be drawn from government, business, labour unions and consumers;
- State Manufacturing Councils to consider issues affecting industry on a regional basis and harmonize national and regional policies;
- Australian Manufacturing Council to assess policy proposals from the national viewpoint and to advise government;
- Clarify responsibilities of federal departments for policy on industry to ensure initiative and consistency.

### **BRITAIN**

In Britain there has been increasing Government involvement in business, particularly since the last War with first the immediate post-war controls and rationing and later the growth of the nationalised sector. The degree of Government involvement has varied considerably with the political party in power; this has meant that industrial policy has been much more in the political arena than in many other countries and that there have been continually major changes of industrial policy. On the other hand, there has been a fairly steady development of regional policies under successive administrations and, throughout, the Government's objective has been to find a way of combining the maintenance of full employment, price stability and balance-of-payments equilibrium and the continuation of many features of a free market economy with a substantial publicly-owned sector. Moreover, recent years in particular have seen a growth in power of the unions and their entry into fields beyond collective bargaining over wages and working conditions. This has been reflected in the increasing emphasis on a tripartite approach to major issues.

Business is organised in a large number of trade associations varying enormously in size and competence. The Confederation of British Industry has both trade association and individual company members and is the representative business body in tripartite discussions. There is also the Association of British Chambers of Commerce which tends to represent smaller and medium-sized companies and has strong overseas links. There is close working level contact between the Government and many individual companies and trade associations. Similar contacts with the unions have been much slower to develop. However, the commitment to tripartite discussion at a national level has grown markedly in recent years, encouraging the development of closer contacts generally.

Extensive instruments of intervention and influence by the Government have been developed, some of the more important of which are:

- i Public ownership. This is at the heart of the political argument and steel, for example, has been nationalised, denationalised and nationalised again by successive Governments. Public ownership, in contrast with the general practice in Europe, has tended to embrace whole industries, creating state monopolies. The recently established National Enterprise Board (NEB), however, will like its predecessor of the 1960s, the Industrial Reorganisation Corporation (IRC), pursue a more selective policy of acquiring companies in a variety of sectors and encouraging growth and rationalisation.
- ii High technology. The Government has at various times, like other western countries, supported a number of major high-technology industries, underwriting R and D costs and sometimes financing production. Support has until very recently been given to a number of the industrial research associations (of which there are about forty).
- iii Regional policy. Because of its industrial history and structure, Britain has had for many years serious regional problems, with concentrations of declining industries in certain areas. The range of instruments designed to induce companies to create jobs in these areas has steadily grown, particularly since the early 1960s.
- iv Incentives for investment. The main investment incentive in the second half of the 1960s was investment grants, but these were dropped and the current incentive is now a tax allowance. Selective forms of assistance to individual companies were developed in the 1960s, mainly in connection with regional policies, but there was still broadly an arm's-length approach between Government and business (except in the case of certain declining industries like shipbuilding and wool textiles). A 1972 act provides for assistance to promote the development, modernisation, efficiency, expansion or reorganisation of an industry or company or to help an industry to contract in an orderly way. A number of sectoral schemes to encourage modernisation and reorganisation or to adapt to changed market circumstances have been developed and assistance has been given to individual companies for certain projects in the national interest or to companies in difficulty. The greater use of these powers has been associated with the general movement away from an arm's length to a much closer relationship between Government and business.

There has not been a tradition of systematic planning on a national scale in Britain, although the National Economic Development Council (NEDC) and the Economic Development Committees (EDCs), set up in the early 1960s, have provided a forum for tripartite discussion of economic issues and an umbrella for a number of industrial planning exercises. The British Government recently launched a major initiative to use the tripartite machinery of NEDC and the EDCs to develop a medium-term industrial strategy. About thirty key sectors of manufacturing, including the main chemical, textile, mechanical and electrical engineering and electronics industries, have been selected. Detailed tripartite discussions in separate sectoral groups will lead to the development of medium-term strategies for each sector and identify the action that Government, management and unions should take. These strategies will be reviewed and rolled forward annually, starting when the Government's medium-term projections become available in the summer and ending shortly before the Budget. This should increase the business input into the Government's economic planning and will give business a greater ability to influence planning.

Planning agreements, a new measure, emphasize a dialogue between individual companies and the Government. The heart of the Planning Agreements will be discussions in which companies will offer substantial information about their plans and Government will in turn be ready to discuss issues of policy and its economic projections and their relevance to the companies concerned. Discussions will concentrate on practical issues of importance to the company and its sector and the aim will be to reach a general understanding and, where appropriate, agreement on action to be taken. Labour unions will be involved in consultations, primarily with the company, but also with the Government, if they wish. This process will gradually build up until it covers something like a hundred major companies.

### FRANCE

France has the reputation of being a country where the Government intervenes a great deal in industry and effectively controls considerable areas of industrial development. There is indeed a long tradition of Government involvement in industry, but there is some argument about its extent and nature. Outside observers tend to attribute to the Government wide-reaching "dirigiste" and selective policies of industrial intervention, linked to the National Plan. Others, not least French public servants, tend to argue that the Government relies on market forces more than is commonly believed.

The truth probably lies between these extremes. Certainly the mechanisms for planning and intervention exist and can be analysed even through their operation in practice and their contribution to France's industrial progress since the War may be matters of greater dispute. But in addition to purely economic and institutional arrangements, other less tangible factors should be borne in mind. An underlying sense of national purpose, most notably perhaps in the graduates from the "Grandes Ecoles" (which still contribute a high proportion of France's managerial and governmental hierarchy), has

been an important factor in France's industrial success. Moreover, in France since the War business has generally done well by comparison with the civil service, finance and the professions in the competition for talent and many of the best managers have used the civil service as a stepping stone.

In recent times, French Government policies have by and large favoured business. A high rate of national economic growth - by European standards - has been achieved. Social objectives and environmental factors have not been allowed to impede progress and exchange rate policies have certainly not harmed French industry's international competitiveness. On the other hand, there have been price controls of varying degrees of severity for most industrial products over much of the post-war period. Moreover, the French business community bears the greatest share of the costs of social security programmes. Nevertheless, business has in general performed well.

The Government's approach to industrial matters is pragmatic and flexible, despite the existence of the formal and apparently comprehensive procedures of the planning system. It has formidable array of weapons at its disposal, but appears to achieve its objectives as much by a process of "concertation" (consensus building), greatly assisted by the close personal links between those in Government and business, as by the use of specific policy instruments.

Among the latter, controls over the supply of funds are perhaps the most important. One source of public loan finance is the Economic and Social Development Fund (FDES), a special account at the Treasury. FDES loans, generally at 3-5 per cent below market rates, account for about 8 per cent of total medium and long-term lending. In the past, they have mainly gone to nationalised industries but are now being used in certain circumstances to help small and medium-sized companies in difficulties as a result of bank lending restrictions. In general, FDES lending is used to supplement other sources of finance to encourage achievement of the Government's policies in the sector concerned.

More important in scale are loans by a number of special financial institutions (such as the Crédit National and the Sociétés de Développement Régional) which provide a major channel for funds from the market for investment in business. Their influence is far-reaching. The loans of Crédit National are slightly subsidised and anyone contemplating major investment seeks to obtain part of the funds from it. Its judgment is so respected that once it has approved a project, other funds are attracted. Moreover, the Banque de France is prepared to refinance medium-term loans by commercial banks for projects which have been approved by the Crédit National and certain other bodies. The Crédit National is managed by former civil servants who tend to reflect the Government viewpoint in their lending policies, although the institution itself is not state-financed (except for the small subsidy element in the lending rate) and is not officially state run. Thus, paradoxically, a non-Government body is more effective in

promoting Government policies than the nationalised banks themselves, which are relatively free of Government influence.

Public ownership is widespread, but there has been no significant extension since the 1940s. Nationalised undertakings frequently exist side by side with private companies in the same sector (e.g., automobiles, oil, banking and insurance) and the steel industry, although it has received a massive amount of Government aid, is still wholly privately owned. The degree of state ownership alone cannot, however, be taken as an indication of the degree of Government influence.

There is a high level of Government support for advance technology industries and for a number of other sectors like steel, chemicals, textiles, electrical and electronic goods. In the past, the Government has also concluded planning agreements with trade associations (e.g., in steel, shipbuilding and computers) by which the industry undertook to carry through certain structural changes or other objectives in return for Government support. The approach to selective intervention is often indirect through IDI (Institute de Developpement Industriel). IDI was set up in 1970, endowed with a mixture of Government and private sector funds. It provides capital to companies and promotes restructuring in sectors of particular concern to Government (e.g., machine tools). It is occasionally called upon to find a "French solution" when an unwanted foreign takeover bid is made for a French company.

While regional policy has not been developed to the same extent as, for example, in Britain or Italy, there are a number of favoured regions in France. The main instrument of regional policy is "Datar" which pursues a policy of selective support for projects. This is backed up by a national system of "Permits de construire", designed to disperse industry from the congested areas, particularly Paris.

France has a highly developed system of planning, dating back to the immediate post-war period, although it has evolved considerably since then. The early plans involved the setting of production targets and were used to decide the allocation of raw materials, labour and finance. More recently, the Plan has become increasingly indicative and is regarded as a "co-ordinated forecast among partners" (Government and business), a means of seeking consensus, sharing information and building confidence. The current (seventh) Plan is different again from its predecessors - less quantified and less comprehensive, identifying priority areas for action by Government and industry rather than drawing up a set of programmes covering all sectors.

About two years before a new Plan is to come into force, some thirty Commissions are established to cover all aspects of the economy. The industrial Commissions (often with a businessman as chairman) comprise businessmen under the umbrella of the trade associations concerned, staff of the Commissariat General du Plan (CGP) and other Ministries concerned, trade unionists and academics.



Before the Commissions begin their work, the CGP develops a macro-economic outline for the main sectors and the thirty Commissions try to put flesh on the bones. Each produces an option plan which forecasts how the sector believes it can meet the market projection from its own resources; but also projects what the sector could achieve given additional resources (e.g., more finance for plant or R and D, better prices, more labour). These options are synthesised into an overall national plan by the various Ministries who meet to decide where to place their priorities and allocate available resources. The Commissions then work up their plans in more detail and the overall, detailed plan is put to Parliament for ratification. Progress of the Plan is reviewed annually.

Measures for putting the Plan into effect seem much less clear-cut. Because planning is at the sector level, there is a gap between those drawing up the Plan and those whose actions are necessary for carrying it out. Overt sanctions are rarely applied and the Government has no statutory powers to coerce industry to fall in with the Plan, although it can use various other instruments available to it. As with Japan, French firms tend to feel that they may expect better treatment from Government if their actions are in line with the Plan than if they are not. Some people believe that the main value of the Plan lies in its effect on the Government's macro-economic policies; others that the Ministry of Finance does not feel itself at all constrained by the Plan.

As noted, business input to the Plan is provided under the umbrella of French trade associations, which are powerful bodies. In addition to the normal functions of trade associations, they are responsible for collecting a very wide range of industrial statistics. The trade unions are also represented on the Plan Commissions, but play a much less active role than the employers and tend to withdraw from the preparatory work to avoid any suggestion that they are committed (in the interests of preserving their bargaining positions). The unions as a whole are not greatly involved in national economic activity, preferring to confine themselves to industrial bargaining. Consultation with outside parties is a long-standing tradition within French administration and is greatly facilitated by the movement of senior civil servants into business.

Since the Plan is now largely indicative, there is no longer any question of the trade associations having to allocate production targets or other objectives among their member firms. Firms learn more about their competitors' plans and forecasts, but this is said not to remove competition but to prevent its wasteful manifestations. Direct contacts between individual firms and the Government take place through the Ministry of Industry and the credit institutions rather than through the CGP and may be linked to the provisions of the Plan.

## GERMANY

The post-war recovery of the German economy was based largely on a free market. Although there has been a degree of central control in some areas, such as housing policy, free competition is the dominant force in business industrial activity. Although Germany's economy as it has developed is now described as a "social market" economy, the fundamental philosophy remains one of free competition and a minimum of Government involvement. Government powers to intervene are limited by the constitution, though thanks to the arrangements for continuing dialogue among Government and both sides of industry and commerce, this does not always prevent the Government from exercising influence over key industrial and commercial decisions. It follows that great emphasis in the interaction between the Federal Government and industry is placed on the framing of macro-economic policies and in the maintenance of a competitive environment, although there is also a considerable degree of detailed Government intervention at the micro-economic level.

In the setting of economic policies, the principle of "global steering" is followed. Under the 1967 Act to Promote Economic Stability, the Federal Government is required to lay before Parliament each January an Economic Report containing desirable targets for the year ahead, together with a detailed explanation of the economic and financial policy that it intends to follow. It also has to comment on the published appraisal and advice of the independent Council of Experts on Economic Development.

This Report is discussed with representatives of employers and unions and other sectors of the economy in the "Concerted Action" forum. The Federal Government may modify its projections and plans as a result of these discussions, but they also provide business with a guide for its own short-term planning. In labour relations, especially wage negotiation, Government is careful to remain on the sidelines. Economic advice is also available from five independent economic research institutes. Considerable use of these and other private institutes is made by business, on commercial terms, to provide more detailed or longer term information on a sectoral basis. In addition, the trade associations and unions have extremely good research departments.

Industrial competition is encouraged in a number of ways. Although earlier in the century the German practice was to favour cartels, the 1957 Law against restraint of competition only permits restrictive agreements under certain circumstances; this is policed by the Cartel Authority. There are also powers to control specified types of abuse by dominant enterprises and to regulate mergers.

A number of factors in the German situation has led to a broad policy of non-intervention and acceptance that while efficient firms should show good profits, the inefficient go to the wall (although the Government, in collaboration with the banks, has rescued some lame ducks where there were serious employment implications). For example, Germany has a largely egalitarian society, resulting in part from the need to re-build the country after the War. Although there is acceptance by Government, management and unions of the need for some income differentials normal to successful capitalism, there is relatively little outward ostentation. There is no élite educational system, leading to close ties between Government and management alone. Nor is there the traditional "them and us" management-labour relationship. Instead, both management and unions tend to be co-operative in taking the longer term view.

This has, of course, been helped by the remarkably successful German growth record since the War, resulting in large degree from the drive for exports. Problems of adaptation and even redundancy become much easier to deal with against this background (generous provision of social security by the Federal Government is also important). But the close relationship between management and workers is also encouraged by Government legislation, giving the workers extensive rights of consultation and control through councils.

Moreover, at the national level, business and labour appear to be organised in ways which contribute to this close relationship. There are only sixteen unions in Germany, although they can finance industrial action adequately when necessary, they prefer to negotiate, normally on a reasoned and factual basis carefully prepared by their highly effective research departments. The management side is organised in a larger number of trade associations which are generally strong and also equipped with good research departments. At a national level, trade associations are brought together in the BDI, although there are no individual company members: another employers' body, the German Federation of Employers (BDA) carries out national wage bargaining with the unions. Local chambers of commerce are represented nationally by the influential Association of the Chambers of Commerce (DIHT). The BDI, BDA and DIHT are together represented in the "Concerted Action" forum.

Although the basic philosophy regarding relations between the public and private sectors is as set out above, nevertheless the Federal Government is increasingly involved directly with industries and companies, sometimes to assist the working of market forces. Some of the main forms of intervention are:

- i Regional Policies. Although regional assistance is not on the scale of that in Britain, industrial development in declining areas is encouraged by various incentives, including investment grants between 10% and 25%. More recently, a new programme of growth centres, chosen in consultation with the Länder (provinces), has been introduced with discretionary assistance available for job-creating investment.

- ii Assistance for Investment. There are tax reliefs for investment, although not particularly generous. Perhaps more important, the European Recovery Programme, administered by the state-owned Bank of Reconstruction, provides low-interest loans for major new investment projects.
- iii Selective Assistance. The Government has developed programmes to assist industry in three areas:
  - a High technology industries like aerospace, data processing and micro electronics, where development costs are underwritten;
  - b Support for R and D more generally by means of tax incentives and direct subsidies, usually for medium and smaller companies; and
  - c Help for certain industries which are declining or have been disrupted by external circumstances (e.g., ship-building, coal mining and oil refining).

The Ministry of the Economy has recently begun more systematic studies of sectors in difficulty (e.g., automobiles, textiles and the construction industry) in consultation with the industry concerned and even more recently has started developing sectoral forecasts for them. But they are really no more than an analysis of the options theoretically open to those confronted with structural problems; they are not plans for Government action.

- iv Public Ownership. There is a spectrum of ownership by Federal, Länder and local authorities covering some 850 firms. In most cases, however, the public sector shareholding is less than half.

Any discussion of the relationship between the German Government and business would be incomplete without mention of the role of banks. They have traditionally played a major part in meeting the financial needs of industry and raising capital issues and have been prepared to assume an entrepreneurial, risk-taking role. The Government has often preferred to channel investment funds to business through the banks, rather than direct.

The basic market economy philosophy is deeply-rooted in the relationship between the German Government and business. This is reflected in the internal and external industrial and trade policies of the Government. But this does not prevent the Federal Government from consulting business closely or, as in other countries, from vigorously supporting a number of industries and helping them to adapt to market changes or to rapidly changing technologies.

## JAPAN

In its relations between the private and public sectors, Japan is so different from Western countries that there are many pitfalls in attempting to describe the Japanese economy and the relationship between Government and business in terms of Western concepts. Some observers even doubt whether a clear distinction can be drawn between Government and business: relations between the two are close, subtle and many-faceted, like those between members of a single family.

The factors underlying this close relationship are historical and social. Industry in Japan was virtually created by the Government in the last century; some business sectors remained under Government control for many years. After the Second World War, the Government guided and protected the reconstruction of industry. Socially, the leaders of business and government are largely the product of an élitist educational system based on merit. Personal contacts play an important part in their relations (a sort of "old boy network").

There is, moreover, substantial movement of people between business and government. But the most important characteristic influencing relations - and this is not confined to the élite - is the strong sense of being Japanese, of "belonging", of identifying with the aims and achievements of Japan. Hence whatever differences arise, the different parties are able to resolve them and work together in pursuit of common aims. Until very recently, the overriding objective has been national economic growth.

Since Government and industry have shared that same goal, it is misleading to think in terms of constraints on one party arising from the activities of the other and of conflicts between them. It is not easy to tell whether Government takes the lead in determining the future course of the economy or reinforces tendencies already arising from market forces and the activities of business. The performance of Japanese business is perhaps the most important single factor determining the Government's economic policies, although the public's demand for pollution control and improved social infrastructure must also be taken into account.

The Government, in turn, influences business in various ways. Legislation plays little part. For the most part, the ministries employ "administrative guidance," involving close consultation with business in search of consensus backed by a variety of "carrots" and "sticks". Important elements are: -

- i Public ownership. The state currently operates only a small part of the economy (e.g., the Japan Development and Export-Import Banks, the Small Business Finance Corporation, the Japan Telephone and Telegraph Corporation), but the few Government-owned enterprises are strategically placed;

- ii Tax incentives: Special depreciation provisions have been applied to help priority industries, although these have been reduced in recent years;
- iii Selective financial assistance: Low cost Government loan facilities have also been used to give preference to priority industries;
- iv Monetary policy: Because industry depends heavily on loan capital from the banks, the Ministry of Finance is able to exercise great influence by controlling the amount, terms and direction of bank lending;
- v Import controls and export promotion: Import controls have been used to protect the development of Japan's young industries following the War. Exports are mainly promoted by private initiative (especially that of the trading companies). The Government's major contribution is the provision of export credit through the export-import bank. The exchange rate was for long held down to encourage exports and discourage imports;
- vi Inward and outward investment policy: Controls on foreign investment in Japan have been used to protect important sectors of the economy. On the other hand, the Government has been active in promoting investment overseas, particularly in order to secure supplies of energy and raw materials;
- vii Prices policy: Although a firm believer in competition, the Japanese Government has at times of recession promoted cartels to stabilise prices and to preserve industrial capacity;
- viii Support for research and development (R and D): Although the Government finances a relatively small proportion of total industrial R and D, it runs 70 national institutes and laboratories. The National Research and Development Programme involves large-scale projects to develop new techniques urgently needed for industrial progress, but which are too risky for private companies to undertake because of the large sums and prolonged research needed. The Government finances selected projects which are carried out through a system of co-operative effort by the state institutes, private firms and universities.

Although the Government cannot compel industry to follow particular policies - and some initiatives of the Ministry of International Trade and Industry (MITI) have been rebuffed - industry knows that an unhelpful attitude may affect Government support or assistance on future occasions.

In its use of these various instruments and in its general economic policies, the Japanese Government has been consistent in its pursuit of the overriding objective of securing growth to the limit consistent with preserving the balance of payments and price stability.

The Japanese drew on French experience of indicative planning in developing their own form of economic planning. Five-year plans are drawn up by the Economic Planning Agency on the basis of data gathered from business, in which mutually agreed targets are set for industry sectors. This is no centrally imposed, rigid master plan for the whole economy. Power is widely diffused and the plans are constantly modified in light of events. The Japanese are not attached to formal procedures; they are accustomed to dealing with problems ad hoc. The plans do not set out to direct what business should do but attempt to forecast the conditions in which actions will be taken. They analyse the future, identify obstacles to growth and select problems requiring solution. They determine a system of priorities. Armed with these plans, the Japanese Government allocates scarce resources, stimulates investment, applies "administrative guidance" and generally makes use of the various instruments mentioned above. The direction of activity can be influenced, but the motive power comes from business itself and little is done to hamper it. In sum, the role of the Government is to adapt the country to reality, rather than to try to create a new reality.

Continuous contact and discussion between government and private enterprise are key to the formulation of Japanese policy. Contact takes place formally in a variety of fora, including:

- i 200-300 "deliberation councils", dealing with industrial matters and linked to the Prime Minister's Office, ministries and agencies. The most important, such as the Industrial Structure Advisory Council, have considerable influence. Sub-committees are often set up ad hoc to deal with specific problems. The Government controls appointments and agendas and usually takes the lead in getting councils to recommend specific action to advance an industry's development or to deal with a particular problem. The voice of business is often provided by the trade associations concerned which are a very effective part of the system. They meet regularly, the top managers attend all meetings, they have their own highly qualified secretariat and have outstanding statistical resources (indeed they provide some of the information on which the Japanese Government operates). Organised labour and the consumer lobbies have so far been given only token representation on a very few councils.

- ii The spokesmen for business as a whole are the four great business organisations - the Federation of Economic Organisations ("Keidanren"), the most influential of the four; the Japan Chamber of Commerce, in which small and medium-sized firms have a major voice; the Japan Committee for Economic Development where more general questions of domestic economic strategy are discussed; and the Federation of Business Managers, which looks especially at labour relations. These organisations invite ministers and senior officials to attend their meetings to explain government policies and to hear business views. The "Keidanren" also produces its own papers and draft legislation in its large research department and submits them formally to ministers.
- iii Businessmen and civil servants appear before the divisions of the Policy Affairs Research Council of the Liberal Democratic Party (which currently forms the Government) where they contribute to policy debates. In addition to these formal channels, informal contacts are extensively used to reach decisions, communicate, or simply develop better personal understanding. Businessmen keep in constant touch with government departments about proposals which may affect them, while the departments in turn closely monitor developments in major industries.

No consideration of the process by which government and business interact would be complete without mentioning the important role played by the Japanese media in assisting communication. In no other industrialized country does the daily press devote so much space to economic and business affairs. Each ministry and business organisation has a small coterie of reporters who are kept closely informed of plans and general thinking. Thus the press is able to provide a constant flood of detailed information open to all, assisting the continuing process of developing consensus.

### SWEDEN

Sweden is one of the most "participatory" of western societies, due largely to its unique system of public administration. Management and labour are not only associated in a bilateral relationship, but at the same time represented in numerous "agencies" which are the backbone of public administration. The functions, which in other countries are wholly the responsibility of government departments, are divided in Sweden between government departments on the one hand, whose functions are primarily those of policy planning and liaison between Parliament and the agencies, and on the other hand separate, semi-public agencies largely funded by government which carry out the actual administrative functions (under acts of parliament). Legislation is usually sufficiently flexible to give the agencies broad decision-making powers. Some agencies are headed by public servants only, but the most important are directed by boards in which the main private sector organizations are represented (in accordance with the specific responsibilities of the agency).



A further factor strongly underlining the participatory character of Swedish society is the legislative process. Committees are regularly established before major legislative steps are contemplated. In addition to the hearings which these committees may hold in preparing their reports, the reports themselves are circulated again for comment to the various agencies as well as the private interest organizations. Their comments play an important role in the drafting of the bills to be submitted to parliament (e.g., tripartite consultation in the commission on restructuring of the textile industry).

To illustrate further the degree to which the various economic interests play an active role in Swedish policy-making, there is, alongside the influential Council for Economic Planning (which draws on various sectors of society), a special Council for Industrial Policy on which government, business, labour and economic research institutes are represented. The Council has, in turn, consultative groups for specific industry sectors.

### UNITED STATES

The United States has traditionally placed great emphasis on individual freedom, which is reflected in part in the traditional commitment to a "free market" system. The separation of powers in the Federal Government and the division between Federal and state rights have tended to reinforce this. The relative roles of government and business have long been widely accepted, although recently they have come under increasingly intense questioning. Government, including both the Executive and the legislature, traditionally sets the framework while the function of business is to make profits for further expansion and to seek, by active lobbying, that Government policies further this.

Business, therefore, operates fairly freely within the legal framework laid down by Government. In addition to the normal legislation relating to business, such as company law and health and safety legislation, a particularly distinctive feature of the American business scene is the wide scope of anti-trust legislation. Infringement can be costly and the great care taken to avoid this is a pervasive factor in relations among American companies and with government.

Another distinctive feature is the extensive role of the considerable number of government regulatory agencies. Bodies with a large degree of political independence, their functions relate broadly to the promotion of the public interest, especially in safety, health, welfare and in utilities. These institutional arrangements reflect the American tradition of judicial as opposed to political procedures. However, there is now increasing concern not only about the ever-larger amount of regulation and its burden on business on the one hand and the lack of accountability and political responsiveness of many agencies on the other.

In addition to circumscribing the operations of business by formal means, the federal government exercises a considerable degree of additional and less juridical influences on business:

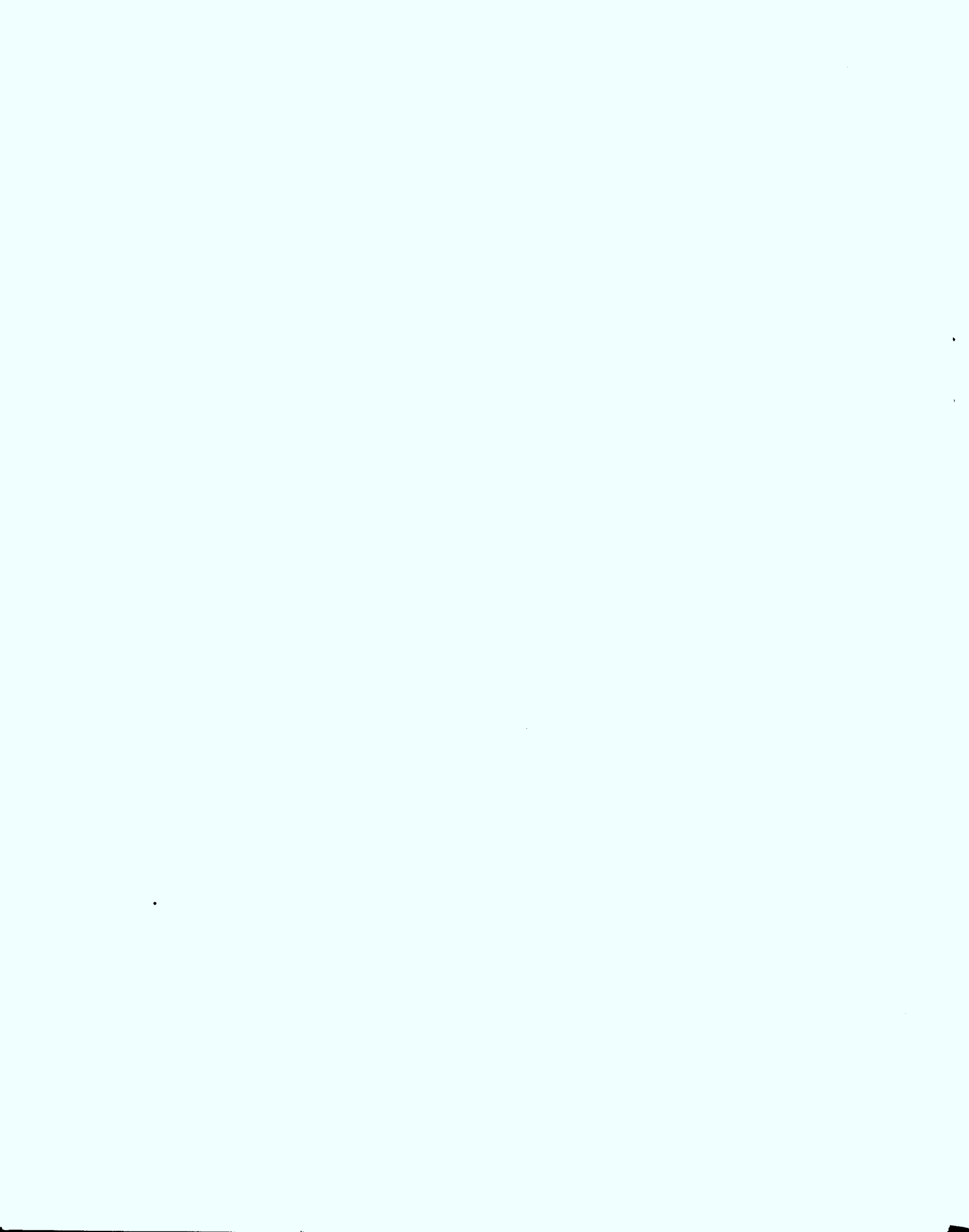
- i Public Procurement: Because the federal Government is a huge consumer of goods and capital equipment, public procurement is of profound importance, particularly to certain major industries. This applies, of course, especially in the defence field where, for national security reasons, the federal government is also concerned with the size and organisation of defence industries;
- ii R and D: The federal Government carries out, in its own laboratories and installations, only one-quarter of the research and development which it finances; one half is done by industry. This was originally confined to the defence industries, like aircraft and nuclear power, but has more recently spilt over into the civil sector;
- iii Public Ownership: Many utilities and some transport authorities are owned by state, local or federal authorities;
- iv Regional Aid: Both federal and state authorities operate regional aid schemes, including provision of special infrastructure issuing of (usually) tax exempt bonds and other tax advantages;
- v Declining Industries: Although there is no general policy of sustaining declining industries, emergency measures are sometimes taken. There are broader adjustment programmes designed to enable workers and employers to adapt to new economic circumstances and specific provisions to help companies and workers adversely affected by tariff or other trade concessions.

There is in the United States no joint planning between government and business on the pattern of, say, French planning, although support for some such move appears to be growing. Recently, there has been a tendency for greater consultation between government and business and some movement towards adopting ideas from elsewhere. At present, the system of checks and balances between the Executive and legislature and the new accessibility to information in United States Government can provide business with greater opportunity to influence public policy.

Lobbying, particularly of Congress, is perhaps the most direct and effective way in which business brings its influence to bear so far as the initiation and legislation of measures of interest to it are concerned. Business is organised into strong trade associations for this purpose and intermediaries, such as professional lobbyists, are extensively employed. The development of legislation in the United States can be a slow process and there are many more points than in a parliamentary system at which it can be influenced. Congress is highly responsive to lobbying and pressure groups and is careful to canvass the views of interested parties at all stages, either informally or in congressional committees. Business is usually also consulted or given the opportunity to comment on proposed regulations drawn up by departments and agencies to implement legislation and many agencies

have advisory committees. So far as the interpretation of laws and regulations is concerned, business can itself make use of the legal and regulatory procedures which govern many of the measures affecting it, either by challenging decisions adverse to its interests in the courts or making use of a variety of appeal procedures, consultation arrangements, public hearings, etc.

Organised labour also seeks to influence Government, primarily by lobbying and through informal advisory committees associated with agencies. It is not affiliated to any political party and hence is not overtly partisan. Relations between organised labour and management also are governed by a corpus of legislation which gives a contractual nature to the relationship and gives some powers to the Government in the event of major disputes.



## APPENDIX II

### Federal Mechanisms for Consultation with Business

More than two hundred committees, councils and other consultative groups have been created by federal government departments and agencies to improve understanding and co-operation between the public and private sectors.\* We cannot hope to describe all their activities here - indeed any adequate catalogue would be longer than this report - but the following suggests the range of mechanisms now in place in several representative departments.

#### The Department of Industry, Trade and Commerce

Through many of its programmes, the Department maintains links with business which are sufficient to ensure a dialogue about its own activities. The Regional Offices, the Trade Commissioner Service, the Office of Tourism and branches dealing with various industry support programmes are all good examples of activities offering this kind of contact. The numbers of businessmen served by these programmes are high: in 1974-75, for example, the eleven Regional Offices had a total of 13,500 contacts with businessmen; during the same year, the Trade Commissioner Service handled about 80,000 inquiries from Canadian firms and from potential importers of Canadian products. The fact that all these transactions take place quite unobtrusively does not mean that they should go unrecorded.

The Department has sizeable financial and other support programmes available to assist business. Since these have been analyzed and evaluated in a recent review (the "Sharwood Report"), there is no need to comment upon them here, except to note the further opportunity that they offer for liaison with business. The Department also maintains a variety of activities aimed at encouraging indirect contact with the business community through its public information office, contacts with provincial governments, etc.

To obtain policy advice from business, the Minister's Business Advisory Council was established in 1969. Members of the Council have raised questions about its effectiveness in terms of lack of focus, inadequate preparation and consultation in advance on subjects to be discussed, absence of broad government participation, etc. More recently, a better defined and more structured meeting has been held. This experience has contributed to our belief that a further advance in this evolution would now be beneficial by the creation of the Canada Business Relations Council, as outlined above.

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\* The nature of federal government financial aid and advisory services to business are summarized in a 1974 publication of Information Canada: Federal Services for Business.

In addition to the changes in the Minister's Advisory Council, the Department has recently established individual consultative committees for several major industrial sectors. As noted in the body of our report, these would be improved by labour and broader government participation. A promising recent initiative brings senior departmental economists together with their business colleagues to discuss periodically economic forecasts and conditions (as was the practice of the late 1940's and 1950's).

In evaluating why these efforts have not contributed more to ameliorating the problems outlined earlier, it is important to note that the Department of Industry, Trade and Commerce has become a very different kind of department than it was during the post-war decade. While it has gained some additional activities (notably the industrial support programmes), many vital activities influencing business have grown up in other departments. This makes it much more difficult for the Department to link its consultative activities with specific initiatives taken elsewhere in government which have some connection with the consultative processes. In these circumstances, it can be understood why both public servants and the businessmen involved wonder what is the "pay-off" for their discussions. In terms of our interviews, it is apparent that both do.

This problem merits particular attention. Taxation, competition, regional development, science and technology, purchasing and regulatory policies of the government are each as important in terms of their impact on business-government relations as direct industry support programmes and policies: they are, however, areas where federal and provincial departments of industry have not in the past operated. We suggest that unless they do succeed in developing a greater capacity to deal with the larger or "horizontal" issues affecting industry development, consultations with businesses will become more problematic, because it will be increasingly difficult to see results emanating from them.

### **The Department of Finance**

Both the Department of Finance and the Bank of Canada maintain close effective contact with the private sector about operations of the financial markets and federal initiatives with major financial implications. The Governor of the Bank, in particular, meets regularly with the heads of the large chartered banks and somewhat less frequently - but nevertheless systematically - with the chief executive officers of trust companies, life insurance organizations, investment houses and other firms which participate significantly in capital markets. In developing monetary policy, the Bank discusses with financial firms the general economic climate and capital market forecasts and conditions. It also reviews the policy options available to the Bank, but it is clearly understood that the precise direction of future policy changes cannot be indicated.

In the development of new policies affecting particular sectors of the financial community (e.g., revision of the Bank Act, anti-dumping legislation, tariff policy, electronic payments systems), extensive consultations with business are held from preliminary analysis through to policy formulation and consideration by parliamentary committees. In the early preparation of a budget, policy options are reviewed with professional economists, institutes and others with expert knowledge in a relevant area. Major business organizations also submit proposals for consideration, but as the budgetary package nears completion, the traditional concepts of secrecy restrict and eventually terminate discussion.

There are, however, some indications that these traditional restrictions may be modified. In presenting the most recent budget, the Minister of Finance called for changes to facilitate pre-budget discussion. This initiative opens a question of major significance in relations among business, government and labour. If pre-budget consultations can be more extensive and thorough, as the Minister has recommended, a major step will have been taken to ensure broader understanding and agreement about the current state of the economy and the policies necessary to deal with existing or anticipated problems.

#### The Department of Consumer and Corporate Affairs -

In at least some respects, the Department of Consumer and Corporate Affairs has the most developed consultative mechanisms with business of any department in the federal government. The Consumer Council (with 24 members) includes businessmen, lawyers, academics and consumer representatives. It meets quarterly under the chairmanship of the Minister to review policy and legislative initiatives being considered by the Department. At these meetings, no effort is made to reach a consensus; their main purpose is to give members an opportunity to identify and clarify their views on particular questions and to present them to the Minister.

In terms of its operational (as opposed to policy development) activities, the Department has established quite different consultations. Taking the revision of administrative law affecting consumer and producer organizations as an example, the Department, to initiate discussion, publishes working papers which take the form of a layman's draft of the proposed legislation and a commentary. They are not definitive statements of government policy or intentions. Seminars across Canada are then held to familiarize those concerned with what is planned, to examine technical details and to give an opportunity to identify potential administrative difficulties. These seminars tend to deal with problems at an early stage, thereby preventing them from becoming matters of principle difficult to review or modify.

### The Department of Labour

The Department of Labour recently established a tripartite Canada Labour Relations Council, with eight management, eight organized labour and four federal government members (representing the Departments of Industry, Trade and Commerce, Manpower and Immigration, and Finance, as well as the Department of Labour itself). The basic purpose of this innovation is to develop new ways to promote industrial peace. Membership from all interested groups is intended to overcome the many jurisdictional problems surrounding labour matters.

While it is too early to assess the operations of the Council (especially in light of its suspension following the withdrawal of Canadian Labour Congress participation), it nevertheless represents, in our opinion, a considerable improvement over most other consultative mechanisms because it is not strictly client-oriented (i.e., its members include management as well as labour); it has the opportunity to initiate research; and because it has strong representation from the major federal departments involved in the formulation of economic and industrial policy.

### The Department of Energy, Mines and Resources

There are two principal advisory organizations: the National Advisory Committee on Petroleum and the National Advisory Committee on the Mining Industry. Additionally, there are a number of specialized committees providing advice in more narrowly defined areas.

The two national advisory committees include only government and industry representatives and each meets a few times a year. The National Advisory Committee on the Mining Industry operates somewhat more formally than does the Committee on Petroleum; the agenda is circulated in advance and working papers are prepared for discussion. Members of both are required to observe the Official Secrets Act.

Both these major consultative committees are valued by the Department. The mining industry seems to consider the committee associated with it to be useful, but there is some evidence that businessmen on the petroleum committee consider that it is less so because some matters discussed appear to have either already been decided by government or are at the final stage of decision.

### The Department of Regional Economic Expansion

Like other federal departments, Regional Economic Expansion has a variety of consultative mechanisms and has experimented with others. Its Atlantic Advisory Council, for example, has its own secretariat; also, at one time there was a National Advisory Board on Regional Development on which business, labour and other



federal departments were represented. At present, consideration is being given to creating four regional councils to parallel the decentralized structure of the Department and to work with a national council on which various sectors of the community, in addition to business and government, would be represented.

In these experiments, the Department has found that public and private sector perspectives on many broad issues are influenced by differing sets of objectives. Past experience indicates that consultations are most effective when a specific activity amenable to action is discussed, a factor giving a common purpose to the consultation.



### APPENDIX III

#### The Burden of Paper

There is one issue which appears to have greater adverse impact on relations between smaller businesses and governments than any other: the paperwork problem. For many years, owner-managers in particular have complained about the volume of paperwork imposed on them by statistical surveys of governments and by the administrative requirements of a multiplicity of different departments and agencies at all three levels of government. This complaint has an honoured, well-enshrined place in most business representations to governments.

Our brief inquiry into this specific matter of major interest to the managers of smaller businesses indicates that it is not only an honoured complaint: it is well justified. According to federal government statistics, there are at least thirty federal administrative and statistical agencies that employ some 360 different forms in connection with the collection of data from business firms (this excludes all provincial and municipal demands). When calculated on an annual basis, the total number of different types of federal forms used is about 2,000. While only a small number of these forms need to be completed by any one firm, there is little doubt that the burden imposed is large, especially on the owner manager, and of course even larger when added to that imposed by the two other levels of government.

More than most issues, this statistical problem cuts across many facets of the business-government relationship. On the one hand, supplying data is unquestionably a burden. On the other, businesses need accurate statistics to solve everyday problems. They also have a strong self-interest in supplying data of good quality to help ensure that government infrastructure programmes are so based as to supply real support for their operations. Further, they consider that the confidentiality of their data is important for competitive reasons and have therefore a strong interest in how such information supplied to government is used.

Indeed, this latter issue is particularly difficult, for it is one of the major reasons for the multiplicity of forms sent out by so many different federal and provincial agencies. For example, most government information needs could be met if taxation data could be widely circulated; clearly it cannot be, because such information must remain confidential for competitive and other reasons. Further, there are additional factors why information supplied to a particular level of government or agency should not be passed on to others.

Because of this, recent federal government efforts to minimize the paperwork burden, while extensive, have not had the impact that all concerned would wish. Statistics Canada (which accounts for 15-25% of the total burden) has taken steps to improve co-ordination with the provinces, to place all its surveys aimed at business under one organizational unit and to develop a business register which would permit greater use of sampling, rather than full counts. It has also used statistical advisory committees drawn from business and has established a small business relations project to encourage the flow of data from Statistics Canada to businessmen and to resolve quickly their complaints.

But overall federal government initiatives to deal with the total problem have been few, because of difficulties imposed by differing collection purposes and confidentiality standards from department to department. One study proposes a new central co-ordinating agency (apart from Statistics Canada) to develop an integrated data bank concerning companies, confidentiality standards and collection procedures which would be applicable across the federal government. Since this idea could have advantages for both the data collector and user, we find it attractive, although not the additional bureaucracy which would almost inevitably be associated with it.

Our initial thinking on what can be done is to suggest more precise treatment of confidentiality, rather than a further attack on the problem which it causes. For quite different reasons, we have suggested earlier in this report that the business community reconsider its attitude on disclosure because, by not volunteering certain kinds of information to the public, it encourages governments to establish additional regulatory mechanisms, with a subsequent further overload of the business-government relationship. This same approach may be appropriate with regard to statistics. Except for information of use to competitors - which should certainly remain confidential - we suggest that much business information which is not now released could responsibly be made public. Business privacy is not always the same as individual privacy. The number, size and importance of business organizations implies a much greater right to know on the part of the public than is the case with individuals. Our recommendations earlier in this report flow from this basic consideration.



