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THE ROLE OF GOVERNMENT IN CANADIAN
ECONOMIC DEVELOPMENT

To understand the role of government in Canadian economic development it is necessary to remember two very important limiting factors. In the first place, the economic activity of the country is in very large part subject to private control. In the second place, Canada has a federal form of government and the powers of the Federal Government itself are, therefore, limited by the constitutional assignment of particular functions and responsibilities to the provincial governments.

The great bulk of economic activity is initiated and directed by private enterprise and new investments, for development and expansion is in the main decided upon and financed by the private rather than the government sector. The Government prefers that the responsibility for business decisions should be in business hands and tends to intervene or participate directly in business activity and economic development only where undertakings thought to be in the national interest are not readily organized on a profitable basis by private individuals, or where it is thought undesirable for strategic or other considerations that private interests should be in control. Indirectly, of course, the Government participates by creating the sort of economic climate in which private business can grow and expand and in which the more necessary forms of economic development are encouraged.

The Provinces own and control all natural resources within their own boundaries. They have responsibility for roads, bridges, and all forms of transportation and communication generally other than those which connect the provinces with one another or with a foreign country. Education, health, hospitals and certain aspects of social welfare, property and civil rights within the Provinces are likewise provincial responsibilities. The Provinces likewise have power to levy direct taxation within their own borders for their own purposes. The jurisdiction of the central Government, on the other hand, includes the regulation of trade and commerce, currency and banking, navigation and shipping, fisheries, unemployment insurance, defence and the raising of money by any mode or system of taxation.

This division of authority between the Provinces and the Federal Government necessarily means that problems of economic development in Canada will often involve co-operation between the central and provincial governments at political, administrative and technical levels. This co-operation sometimes takes the form of particular contractual or semi-contractual agreements as in irrigation, forest conservation, health services, etc. But more often it is accomplished by continuing contacts and exchange of views and plans at administrative and technical levels. The nature and effectiveness

of such co-operation varies, but, generally speaking, it is of a high order.

The Federal Government is directly responsible for the development and administration of the Yukon Territory and the Northwest Territories which have not been incorporated as provinces. These vast areas comprise one and a half million square miles but contain a population of only some thirty thousand.

Having in mind the above limitations to direct federal participation in economic development, we can turn to the specific political and administrative machinery through which such participation is effected. We note too that the direct participation of the Federal Government in economic development is much less significant than the role which it fills in creating the set of economic conditions favourable to economic growth. We can, therefore, break this problem down by examining the role of specific parts of our governmental machinery and by inquiring into the effects of government fiscal, monetary and trade policies. Thus we must examine the role of the Cabinet, the role of the Treasury Board, the role of Cabinet and Interdepartmental Committees, the role of specific Crown agencies and companies charged with specific operations or developmental programmes, the role of fiscal policy, the role of monetary policy and the role of trade and commercial policy.

In so far as the Federal Government is involved in economic development, the Cabinet will set the general policies and decide questions of principle, since it is at the top of the whole executive structure of government. Naturally, of course, the advice on which Cabinet will make decisions will flow from various sources, including committees of itself, committees of particular departments or interdepartmental committees.

The Treasury Board is a committee of Cabinet charged with the task of dealing with requests for expenditure submitted by individual government departments and agencies. The Treasury Board is composed of six members of the Cabinet, with the Minister of Finance as Chairman and its secretariat is composed of a staff which forms part of the Department of Finance. Each year the Treasury Board prepares the estimates of government expenditure on the basis of estimates submitted to them by the individual departments. During the preparation of the estimates these departmental submissions are carefully examined by Treasury Board staff to see that they are consistent with government policy. Moreover, once the expenditure policy embodied in the estimates has been approved by Cabinet and by Parliament, the Treasury Board sees that expenditures made are in accordance with this policy. Contracts above a stated amount (usually above \$5,000) must be approved by Treasury Board even though the general authority to spend money for a particular purpose has already been granted when the estimates are passed by Parliament. Thus the Treasury Board can exercise continuing control of a very close nature over most developmental projects of any size since these are apt to involve the letting of contracts. This centralization of power over expenditure, therefore, acts as a strong co-ordinating influence.

Interdepartmental Committees are formed for the purpose of bringing together the best advice available within the Government. These Committees consist of senior government officials and their recommendations go forward to Cabinet whenever necessary so that an appropriate government policy can be formed. Such interdepartmental committees do not, of course, remove the necessity for a great deal of basic investigational work being done within departments directly concerned with a proposed development and the examination of a proposal may involve the use of outside technical assistance or opinion. On occasion a Royal Commission may be appointed to report on the merits of a particular proposal, as in the present Royal Commission on the South Saskatchewan River Project.

Within government departments there are a number of activities directed to primary development which are in the main decided internally, although the policies on which they are based have been established by Cabinet. This is particularly true of the Departments of Agriculture and Fisheries. Economic development is facilitated by scientific aid and in addition fairly large-scale special projects are undertaken. On the whole these activities are handled through departmental channels in close liaison as far as expenditure policy is concerned, with officials of the Department of Finance. However, the procedure is flexible. For certain fisheries areas, special developmental committees, on which both government and industry are represented, have been called into existence. Within their terms of reference these committees can make recommendations to provincial governments and the Federal Government, as well as to management and labour.

The Crown corporation provides another means of dealing with certain types of governmental business activity or of carrying out policies respecting economic development. As in the case of housing, the policy may have important social objectives although the economic implications are also significant. In this particular field, a Crown corporation, the Central Mortgage and Housing Corporation, is responsible for policy and administration and answers to Parliament through the Minister of Resources and Development. The Board of Directors has a widely representative membership and includes a senior official of the Department of Finance. The advantages of the Crown corporation in this particular type of operation are two-fold. In the first place a Crown corporation can be organized and managed in a fashion more appropriate to the execution of what is essentially a business operation than can a government department. In the second place, the Board of Directors are men who form the nucleus of a closely-knit group of senior civil servants in constant touch with a wide range of activities and can therefore bring to bear a measure of control at once flexible and informed.

It was stated at the outset that the extent of government participation in economic development was subject to constitutional limitation because of provincial powers and that it was relatively small compared with the vast amount of economic development flowing from private initiative. In this country the belief that government should create the conditions under which private initiative will continue to assume the major responsibility for business activity and economic development is very deep-rooted and hence the most significant developmental work of the Federal Government

takes place within the fields of fiscal and monetary policy and trade and commercial policy.

Fiscal policy, therefore, is not merely a matter of raising money for government purposes in an equitable and efficient manner - it is also a matter of raising money in the way which does least harm to the forms of economic activity and development thought to be most necessary at a particular time, of raising it in a manner which best promotes the over-all conditions of stability and continuity judged to be necessary to economic growth. From the expenditure side it must recognize the implications of subsidies and transfer payments.

For example, in the early post-war years the Federal Government deliberately budgeted for surpluses because of the generally inflationary situation. Because of the rapid decline in government expenditure, it was possible, however, to cut taxes by substantial amounts. The largest of these tax cuts were made in income taxes because it was the policy of the Government, so far as possible, to favour taxation which would not harm the incentives to produce. Again, in the post-Korean situation the rapid rise in defence needs meant higher taxation but while it was necessary to increase income taxes both personal and corporate, taxes on commodities were more sharply increased. The taxation of durable goods such as automobiles, electrical appliances, etc., was particularly severe because it was necessary not only to raise money but to reduce the consumption of items the manufacture of which required the materials and skills also required in the defence effort. This policy was buttressed by the control of consumer credit. The pressure on resources was further eased by discouraging less essential forms of new capital investment through deferring for four years the right to charge depreciation for income-tax purposes. These examples indicate some of the ways in which guidance is given to economic activity through fiscal policy.

The field of monetary policy is to a great extent the responsibility of the Bank of Canada. However, the Deputy Minister of Finance is, ex officio, a director of the Bank and there is the closest liaison between the Department of Finance and the Bank of Canada. During the period of greatest post-Korean inflationary pressure the chartered banks agreed with the Bank of Canada that a further expansion in the aggregate volume of bank lending was not in the national interest and for more than a year they voluntarily maintained a ceiling on their lending. Prior to this the Bank of Canada had raised its discount rate from $1\frac{1}{2}$ to 2 per cent and throughout the period interest rates were permitted to move upward.

In the field of trade and commercial policy, it is sufficient to point out that any Canadian Government must recognize the great stake that Canada has in world trade. Here too the policy of the Government is and has been to work toward the establishment of those conditions which promote the flow of world trade on which our standard of living so heavily depends.