
Economic Policy and Institutional Reform

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I do not believe we will resolve most of the major issues facing Canada today, particularly the economic issues, unless there is reform of our institutions of government – particularly Parliament. This belief is based upon several facts: first, the capacity of the legislature to fulfill its historic role of monitoring policy initiatives has been overtaken by the sheer increase in the size of government; second, no changes have been made in the operation of the legislature to complement the changes which have occurred in the executive branch of government; and third, changes which have taken place in the world economy require a totally new approach to economic policy-making. The creation of a new consensus about national goals must begin in a reformed Parliament.

The Changing Role of Government

The role of government in our society has changed markedly since the end of World War II. In 1950 it is estimated that about 2 per cent of the goods and services produced in the nation were produced by governments – today the comparable figure is estimated to be 20 per cent. In 1950 governments employed less than 10 per cent of the labour force; currently it is estimated they employ 25 per cent. This extensive expansion of activity has led to a great increase in the number of government departments and an incredible expansion of Crown agencies. Indeed, in 1985 it is estimated that there were more than 800 Crown corporations in the nation and that together they spent more than the rest of the government. In short, the government of Canada has become an incredibly complex institution – so complex that there are those who argue that it is really out of control and that we no longer have any effective management of the public sector.

The growth in the responsibilities of government have led to major changes in the way the executive side of government operates. In the early days of Mackenzie King's administration before World War II, when the cabinet met there was no agenda, no minutes, no records of decision – simply discussion of the things which I suppose Mr. King thought were important. The country in those less complex times was run by strong Ministers with strong departments. Mr. C.D. Howe, held a portfolio associated with economics for twenty-two years and Mr. Gardiner was

Minister of Agriculture for a similar period. In the latter part of his time in office, when he was Minister of Trade and Commerce, Mr. Howe started his working day by telephoning ten of the leading chief executive officers of Canadian firms, who were all his friends, to gain their views on the significant issues of the time. Ministers knew everyone who was related to their sphere of activity and everyone knew the ministers. It was an age of "elite accommodation".

The important point is, however, not that ministers knew everyone, but rather that they had immense power. If Mr. Howe wanted to do something he simply did it. The Cabinet was truly, in most instances, a ratifying body which gained its solidarity because of mutual support of ministers for each other, not because of any joint decision making processes.

Deputy ministers were very much like their ministers. They stayed in one department for considerable periods of time. They became acquainted with the leaders in the various sectors of the economy which their departments served and, of course, they, too all knew each other. Co-ordination among government activities, if necessary, took place when the deputies met for lunch at the Canadian Club in the Chateau Laurier or on the week-end at the Gatineau Fishing Club.

As government expanded its responsibilities and the issues became more complex the informal, "elite accommodation" approach began to break down. By the time Mr. Diefenbaker became Prime Minister the task of co-ordinating government activities strained the existing approach to almost the breaking point and in the Pearson administration it was clear that reform was imperative.

Mr. Pearson's approach to the problem was to create *ad hoc* Cabinet committees to deal with issues which crossed departmental lines and about which agreement at the deputy or ministerial level was unattainable. As time went by the Committees were transformed from their *ad hoc* form to permanent status. By the end of Mr. Pearson's time as Prime Minister there were 10 standing committees of cabinet, including one for Planning and Priorities which had as its major responsibility the setting of the direction of the government – something which, heretofore had always been a responsibility of the full cabinet.

When Mr. Trudeau became Prime Minister he further developed the system. Under Mr. Trudeau, except in more or less emergency situations, nothing could come to Cabinet before it was vetted through a cabinet committee. Under such circumstances the days of the strong, independent ministers and departments was over. Mr. Howe could not have operated in a Trudeau cabinet. Indeed, many other people who had their first

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experiences in government in the St. Laurent-Pearson period found it very difficult to adjust to the new system which saw literally, a massive transfer of influence from the departments to the central agencies of the government. All the cabinet committees, of course, had to be staffed and that staffing was done by the Privy Council Office. The Clerk of the Privy Council and his associates set the agendas (in consultation with the appropriate chairperson), wrote the minutes, and briefed the Prime Minister about committee discussions. Moreover, every memorandum to cabinet was vetted through the PCO. Since in Ottawa, as everywhere, power and influence come from two things – access and information – the power of the PCO increased dramatically.

The transfer of influence and power from the ministers and departments to the central agencies – not absolutely but relatively – resulted in the loss of one of the most important conditions for effective government in a democracy. Democratic governments function under the consent doctrine – government governs with the consent of the governed and the governed have the right and the responsibility of having an input into the formation of the laws under which they live. In Canada, this latter condition was always fulfilled through the ministers and the departments. However, once power and influence was transferred to the central agencies that route for input was effectively closed. The officials in the central agencies took the position that their job was to run the machinery of government – not to make policy – and so they had little or no contact with anyone outside of government.

Consequently, since the early 1970s because the traditional way through which citizens had an input into the formation of public policy was lost and not replaced with any other system, people became increasingly alienated from their government.

In the area of business the extent of this decline in the relationship between the public and private sectors is well illustrated by the analysis of Prime Minister Trudeau who stated that if you want to understand the interaction between business and government in Canada you have to think of it as "the new Canadian two solitudes".

In short, by 1981 the traditional close relationship which had characterized various sectors of the economy had broken down. It had done so because members of the private sector no longer had adequate impact on the formulation of the laws under which they were governed. Moreover, there was a general realization among people that this unfortunate situation had developed because of the movement of power to the central agencies. And the discouragement with the situation was re-inforced by cynicism – every poll showed that most Canadians believed something could be done about the situation by reforming parliament, but they also believed that there was little likelihood that parliamentary reform would take place.

The Changing Economy and Parliamentary Reform

The world is changing dramatically. It always does. Indeed, one need only recall that in 1897, at the time of Queen Victoria's Diamond Jubilee, Great Britain was unquestionably one of the richest, most powerful, nations in the world and that today she is one of the poorer members of the European Common Market to realize how rapid and how dramatic change can be. Nations must accept the reality of change, and understand that the way in which they accommodate to it, determines to a very large degree the probabilities for prosperity in the years ahead.

Last year I was in Pusan, South Korea. Thirty years ago Pusan was a fishing community – now its major suburb, Ulsan, is the site of the largest shipbuilding companies in the world and also a major producer of automobiles. In 1960 South Korea produced little or no steel – today it is a force in the world steel market. In 1981 Japan produced more cars than any country in the world. There are now 85 countries with automobile assembly lines. Nigeria, Saudi Arabia and Mexico all have their own chemical industries bases on their own feedstocks. In 1975 at their meeting in Nairobi, all the UNCTAD countries (that is nations who are members of the United Nations but not the OECD) took as their goal to have 20 per cent of the world's manufacturing within their boundaries by the year 2000. At the time they had about 7 per cent – they now have almost 18 and will easily exceed their goal. In short, it is a new world.

The reason for the change is easy to explain. Today technology and modern management can be utilized anywhere. The plants in South Korea are as modern as any in the United States and Canada. The high technology combined with lower wage rates means that production costs are less. So that is where manufacturing is taking place. Assembly line operations are being transferred from the old industrial nations to the new. And the transfer will not be reversed, not only because of cost differentials (which might in time be overcome) but also because many of the older industrialized nations simply no longer have the type of manpower necessary for mass-production, assembly type activities.

The nation most affected by these changes is the United States. However, adjustment in that country has been rapid and it is experiencing substantial prosperity – a prosperity built on a new base, the base of knowledge rather than the traditional one of industrial and service. Growth in the United States is in the high-technology industries in the sun-belt states; adjustment and decline is in the old assembly line based "rust belt" states in middle-America. What does all this have to do with Canada? The answer is, a great deal. Canada is a trading nation. About 25% or more of the gross national product is produced through international trade (more than any other industrial nation in the world) and almost 80 per cent of that trade is with the United States. And so a changing U.S. economy had grave implications (and opportunities) for Canadians. Indeed, to understand the importance of the U.S. market to Canada one need only to reflect on what would happen to the Ontario economy if there was no Auto Pact. It has to be alarming to Canadians that in 1984 the United States ran a trade deficit of \$120 billion – the largest deficit in history – and yet the Canadian economy was not operating at full capacity. Traditionally when the U.S. economy has boomed so has the Canadian; but currently this is not the case, which suggests that the current economic problems in Canada are not of a cyclical, but rather a structural nature.

The reality is that Canada's share of world trade is declining – from 5.0 per cent in 1970 to 3.75 per cent in 1980. Commodity prices are low and we are losing market share in those markets where we are major exporters. Third world countries are highly competitive in the production of most of the things which Canada exports. Nickel is being produced at low prices in New Caledonia, copper in Zaire, oil and gas in Mexico, Venezuela and the middle-East at far lower costs than Canadian. Australia is dominating the Pacific Rim market for coal and Chile is exporting newsprint to the United States.

The Japanese have a brilliant strategy with respect to resources. They are financing their development in all parts of the world with the simple goal of always having supply greater than demand, thereby keeping prices low and supply guaran-

ted. It is difficult, barring a war or other catastrophe, to foresee the terms of trade turning in Canada's favour in the near future.

Canadian economic policy has always been based on selling resources, whether they be fish, furs, gold, paper, hydro-electricity or gas, to earn the foreign exchange to buy the goods we wanted and service the debt on borrowings. However, even in the most prosperous trading years seldom have Canadians been able to sell enough to earn sufficient foreign exchange to pay for all imports and service all debt. In fact, in every year but four between 1952 and 1982 there was a deficit in the current account of the balance of payments. But why should this be? Why, one must ask, has Canada never developed as a mature industrial nation? Why after importing capital for over 120 years have we not developed an economy which can support itself? Are the premises on which economic policy has been based for so long inappropriate?

Similarly, there are problems with Canadian domestic economic policy. For nearly fifty years Canadian policies have been based on the macro-economic theories of Lord Keynes. And they worked reasonably well. During most of the post-World War II period there has been reasonably full employment and price stability. There was always a trade-off between the two. Excessive inflation was dampened by lowering consumer disposable income through tax and government spending policies. Excessive unemployment was attacked by the reverse of the same policies. However, by the mid-1970's the trade-offs between the two no longer seemed to exist. All of a sudden there was both inflation and unemployment – Keynesian policies were no longer effective.

No government, of course, can avoid attempting to resolve economic problems. To do so would ensure defeat; moreover, it would be an abdication of responsibility. Consequently, with the failure of Keynesian measures there was an effort to find new solutions to the unemployment and inflation problems. Since macro-policies did not work it was natural that policy makers should attempt to find solutions through using micro-measures, that is measures designed to change activities in individual markets and sectors. Bail-outs of failing firms became common place, restructuring of industries became part of governments' responsibility. Economic policy making became basically *ad hoc* – policies were put in place to handle each individual situation as it developed. Such an approach leads, of course, to a proliferation of policies, many of which work against each other with the ultimate consequence that they all fail. Without some integrating overall strategy such an approach cannot work.

If the Canadian economy is to perform at anywhere near its potential in the years ahead the premises on which both national and international economic policies are based must be re-examined. However, this cannot be done in a vacuum. There has to be consensus about the goals of the nation before policies can be put in place. What do we want to do? Is our focus to be on wealth distribution or wealth creation? As social policy are we going to maintain, through subsidies, inefficient organizations in operation? Is Canada's future with more free trade or with higher tariffs? In short, what are our goals?

But how do you decide about national goals? And how do you develop the policies essential for the goals to be carried out? It is not an easy thing to do. During the 1970s the government attempted to do so through a consultative process with labour and business without success. Efforts have been made to reach a consensus about goals at Federal-Provincial conferences with the same result. In spite of protestations from then Premiers Lougheed and Davis that something should be done, and truly eloquent proposals from Premier Bennett and federal representatives no consensus about economic goals has ever emerged

from such meetings. So where can a consensus be formulated? And most importantly, where can it be arrived at with everyone effected by it having some input involved in its formulation – as must be the case in a democratic, pluralistic society.

The Role of Parliament

The parliamentary system, of course, is based on the fusion principle, not one of checks and balances. But is this fusion between the executive and legislature appropriate in an era when problems are so complex and when government does so much? Is it not essential to have checks and balances in such a large system? Is it not essential to have inputs from as many sources as possible when policy is made in such difficult times? And most importantly when the traditional process by which people have always had an input into the formation of the policies under which they live has been closed (because of the change in the operations of the executive side of government) is it not absolutely essential to develop new procedures so that this imperative part of the consent doctrine is maintained?

The answers to these questions is yes. The only way, however, that they can be answered positively is through re-ordering the parliamentary system so that the legislature has some input in the formation of policy. As the nation approaches the twenty-first century there is only one place where strategies can be developed for dealing with the economic problems which Canada is facing and that place is a reformed parliament. Only a reformed House of Commons and committee system has all the credentials essential for creating a consensus about the economic goals of the nation and the policies necessary to fulfill the goals.

What reforms are necessary in order that committees can play their proper role? Some of the changes are obvious – committees must have appropriate staff support so that they can effectively examine witnesses. They must be able to call whom they wish, and most importantly, on many issues they must operate without the "rules of party unity" – the Whips must be off. Members, on broad economic issues, must be able to sit as individual members attempting to arrive at a consensus about what must be done in the national interest.

Committees must have calendars. If they are to play a role in analyzing and creating economic policy positions there must be a regular system whereby the Minister of Finance presents an economic statement in the fall committee. The committee in turn must call the most expert witnesses available to analyse the statement and make recommendations as to its value. The Committee, must then make a report to the House – where it must be debated and a free vote taken on its contents. The Minister of Finance would, of course, not be bound by the results of such a debate but he would certainly ignore it at his political peril.

When I was a Member of Parliament economic debate in committees was useless. The Governor of the Bank of Canada and other officials would appear but it was all cosmetic – nothing ever resulted from it because the Committee had no power and little influence.

However, if the Governor of the Bank of Canada's testimony was examined by the most expert witnesses available from throughout the country and he was asked to answer questions prepared by the staff economists of the Committee, and if a report went to the House, then a debate about policy in this country would be joined. Moreover, if the debate were televised it would become one of the most important elements of parliamentary activity.

At the present time there is no place in Canada where the economic issues of the nation are fully and thoroughly debated. The times are too perilous to permit the luxury of economic policy being made simply by the executive branch of the government. The legislature must also become involved. And indeed it is admirably suited to do so. Committees are permanent, representative and can have influence and power. No other institution in the nation has these characteristics – only Committees of Parliament can provide the essential forum for the hammering out of a consensus on the economic goals of the nation.

The reality is that there must be a re-examination of both international and domestic economic policy in Canada. If Canada is to be a competitive force in world markets difficult decisions must be made about the way in which the nation should develop. In short there must be a new consensus created about where the nation is going and the policies that must be enacted to fulfill those goals. A reformed parliament is the only place where this essential condition for the creation of appropriate economic policies for the nation can be fulfilled.

In order for committees to operate effectively there must be reform not only of rules and regulations but also of attitudes. The chairman of a parliamentary committee must begin to have the same degree of prestige as a minister of the Crown. They should be paid the same and it should become accepted that a person can make as successful a career in parliament as a legislator as a member of the executive.

Obviously, such change would mean a larger role for Parliament. It would mean some diminution of the “fusion principle”. It would bring some checks and balances into the system. Would that make the parliamentary system somewhat more like the congressional? Perhaps but does it matter? Clearly not. What one is searching for is an institutional arrangement that serves the Canadian people best – that permits the formation of better economic policy for Canada. It clearly makes no sense to elect 282 people to Ottawa, appoint 40 as members of the Cabinet, another 40 as parliamentary secretaries and leave the rest with little else to do other than ratify what the executive has done. Prime Minister Trudeau was 100 per cent incorrect when he stated several years ago that ten minutes from Parliament Hill MPs are nobodies; on Parliament Hill MPs are nobodies – back in their constituencies they might be somebodies.

Members of Parliament have never been able to represent directly the interests of their constituents. The best they can do is to try influence their parties position with respect to an issue within the confines of the caucus. As long as citizens felt that they could have an impact on policy through cabinet ministers and departments the fact that there was no other manner in which they could have some input into the formation of policy did not matter. But with the decline in power of the ministers and departments the traditional method of influencing policy has gone. It must be replaced and the only way of doing so is through giving influence and power to MPs and this is possible only through giving power to committees to help formulate policy. Not only is it the only way to bring back “the consent doctrine” but it is the only way to get effective economic policy developed in Canada.

Institutions, if they are to be viable, must change. If they do not they die. In 1965, for example, when the Economic Council of Canada was organized it played an important role in the nation as a place for the development of medium term policies. There was no other institution in the nation quite like it at the time and it undertook some interesting studies. However, the impact of the studies was at the very best marginal because the Council had no power base – and it has no power base today so its influence is still marginal. What has changed, however, is that there has been a

host of organizations similar to the Council – the C.D. Howe Research Institute, the Niagara Institute, the Conference Board in Canada, et al. established that do studies similar to those of the Council and therefore there is really no function for the Council to perform. Indeed, the Council should be disbanded and the staff transferred (or at least part of it) to the jurisdiction of the Standing Committee on Finance, Trade and Commerce to assist the Committee in preparing for hearings and writing reports. By changing the nature of the functions of the institution its viability could be restored.

And what is true of an institution such as the Economic Council of Canada is equally true of our greatest institution – Parliament. Only through change and reform can it retain its rightful position as the most significant institution in the country; without reform its prestige, power and position will continue to decline and true parliamentary democracy in Canada will be lost.

Conclusion

There is a widespread feeling among the people of Canada that the institutions of government – particularly Parliament – are incapable of dealing with the issues before the nation in an effective fashion – and as usual the people are correct. People are not calling for reform for the sake of reform – they really are not sufficiently versed in the way in which the institutions operate to know precisely what changes should be made – but they do know that something should be done. They know that the economic policies of the past few years have not worked well; they know that the world is changing dramatically and that Canada must change with it; they know that the status quo is not a viable option. And they want institutions that can deal effectively with developing issues, and they want to have their input into proposed policies.

What are the goals of the country? How can they be established? Who should establish them? For example, how, in a pluralistic democratic society such as Canada should the question of whether we want free trade with the United States be decided? Surely not by officials in government departments. This great question should be debated before the elected representatives of the people of Canada by all interested parties – premiers, bankers, union leaders, consumers, businessmen, economists, farmers, et al. – in televised hearings so that all Canadians are informed of the issues in an effective manner. But the only way that this can happen is by reform of Parliament.

I was a Member of Parliament for seven years. Many people ask me if I enjoyed it. I answer, yes, because I found it an interesting experience and I admire people who serve in Parliament. But then, I also say no, because Parliament as it is now organized is so ineffective. It is all show and little substance. How wasteful of resources and talents. And how sad when it could be, with appropriate reforms, the most dynamic, effective institution in the country. As we approach the end of the twentieth century it is clear that Laurier's prediction about the twentieth century belonging to Canada was wrong. But we do not need to fail him in the twenty-first. We must and can reform our institutions of government so that effective policies can be made to assure economic prosperity in the future – prosperity that depends on effective new policies built around a new consensus on economic goals that can only be formed in a democracy in an effectively operating Parliament. ■