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ECONOMIC POLICY: ADVISER ORGANIZATIONS

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INTRODUCTION

This paper describes the most important advisers on economic policy in Canada. These are not specific individuals (for example, the current Minister of Finance), but rather departments, agencies, committees and other groups that make or influence economic policy or provide information and analysis of use to policymakers. The emphasis is on groups concerned with macroeconomic policy or general issues of expenditure or regulation, particularly those who are often in the news or who are known to provide information to government. The paper does not attempt to discuss provincial economic policy or the provincial organizations dealing with it.

BACKGROUND ON POLICY

Economic policy falls into four general categories:

1. Fiscal Policy
    - Tax
    - Expenditure
2. Monetary Policy
3. Regulatory Policy
    - Financial
    - Non-Financial
4. Redistributive Policy

The first two (macroeconomic) policies are obviously linked to the Department of Finance (Fiscal Policy) and the Bank of Canada (Monetary Policy). These two institutions and the links between them will be discussed below.

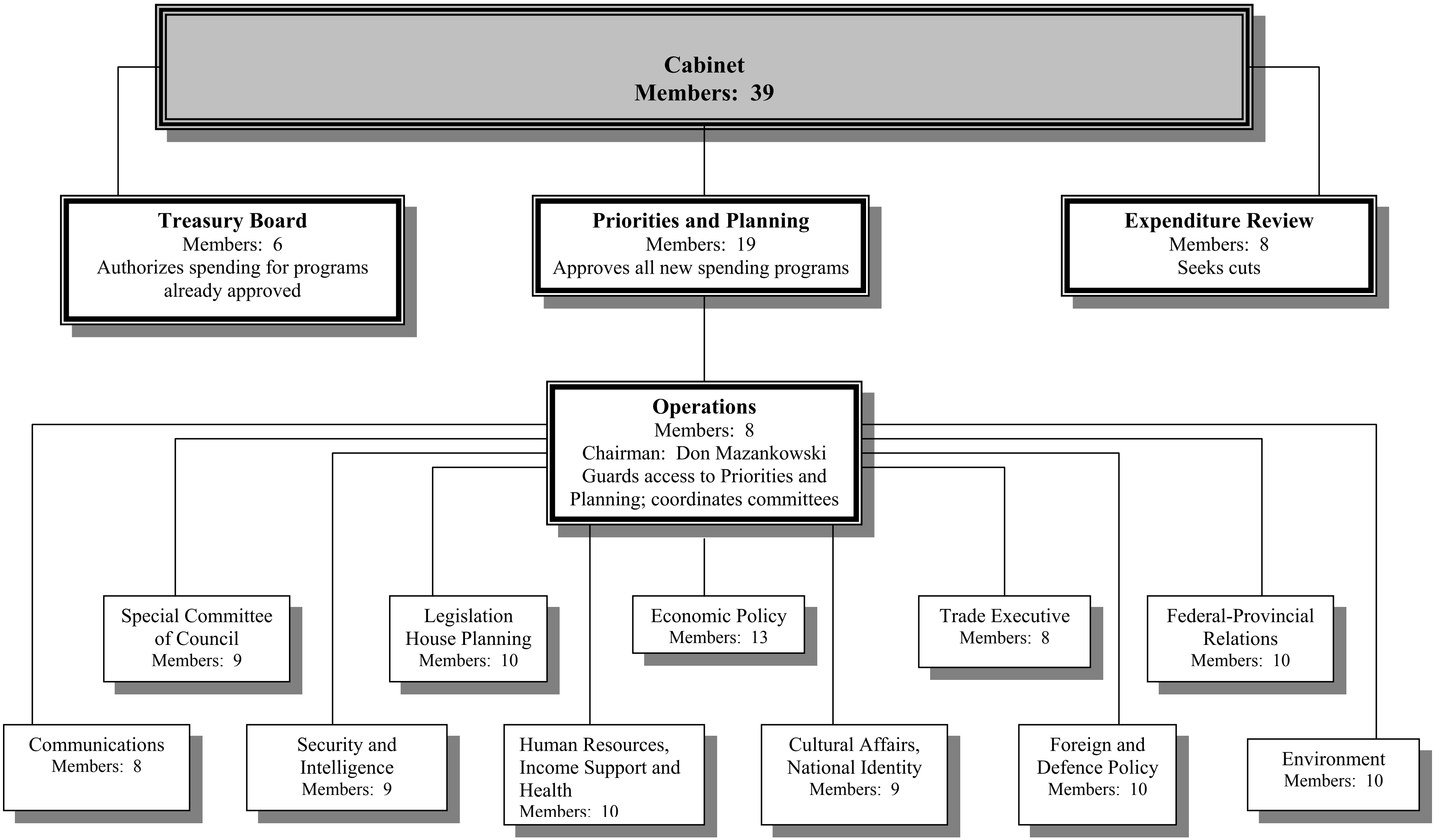
It is more difficult to identify advisers on regulatory policy and redistributive policy. Every minister in Cabinet (and each organization under the minister) is concerned with these policies, but it is beyond the scope of this paper to describe every department and government organization in Ottawa. Moreover, there are scores, if not hundreds, of groups outside government that provide information and analysis in hope of influencing these policies.

THE CABINET AND ECONOMIC POLICY

The government of the day, and ultimately the Prime Minister, is held responsible for economic policy. This is true, but it is more useful to go to the second tier of responsibility and examine decisionmaking and the Cabinet.

The following figure shows the Cabinet committee structure following the recent Cabinet shuffle. Several observers have pointed out that the new structure has been set up to make it easier to refuse requests for spending; this is reasonable, given the priority apparently being given by the government to deficit reduction. There is, however, nothing in the structure that will automatically lead to expenditure cuts.

Among the most important changes in the Cabinet structure were the creation of the Expenditure Review Committee with the Prime Minister in the chair, and the Operations Committee (Ops) with the Deputy Prime Minister in the chair. The former committee, on which the Deputy Minister, the Minister of Finance and the Treasury Board Secretary serve, is based on similar Cabinet committees in the U.K. and Australia, and will actively seek expenditure cuts. Officials from the Department of Finance are helping to staff this committee. The Treasury Board Committee continues to authorize spending for approved programs. Its traditional role of promoting efficiency in spending will, of course, complement any moves towards restraint.



Source: The Ottawa *Citizen*, 4 February 1989, p. B1.

The Operations Committee coordinates the policy committees and controls access to the Priorities and Planning Committee (P and P) which approves all new spending. Policy committees thus have no spending power of their own. Several commentators have pointed out that the mandatory route from Ops to P and P offers two chances to close the door on new spending proposals. This structure also gives more prominence to P and P and more power to the chairman of Ops. In theory, it will no longer be possible for a minister to go directly to Cabinet or the Prime Minister, a practice that showed the need for discipline among Cabinet committees, and led to the informal Ops function in place since about 1986.

Commentators have noted that ministers who are not on the Treasury Board, Ops or P and P Committees have lost some power by the recent reorganization, while the Deputy Prime Minister has increased in power. This new power flows from the new structure, and the new structure may, in part, reflect the personality of the Deputy Prime Minister.

Emphasis on the powers and personality of the Deputy Prime Minister, however, has drawn attention away from the new position of the Minister of Finance. This Minister is on the four main Committees, and, as noted, officials from his department will help staff the new Expenditure Review Committee.

THE PLAYERS

The following are brief descriptions of those departments and organizations most concerned with economic policy in Canada. The descriptions are based on information provided in the *Canada Year Book*, CCH *Canadian Government Programs and Services Report* (looseleaf service, regularly updated), annual reports and publications of the organizations described, and unpublished papers by economists in the Research Branch of the Library of Parliament. As the discussion above brought out, the Department of Finance is the central player.

A. The Department of Finance

The Department advises the federal government on the general economic and financial affairs of Canada. Its broad interests are reflected in its policy branches:

- Tax Policy and Legislation Branch
- Economic Development Policy Branch
- Fiscal Policy and Economic Analysis Branch
- Financial Sector Policy Branch
- International Trade and Finance Branch

- Federal-Provincial Relations and Social Policy Branch

The Department also has a Law Branch, staffed by the Department of Justice, and an Administrative Branch.

Analysis by the Department deals with short-run economic developments and long-run, or structural, developments. The former are focused on the budget, which reflects the success or failure of past economic policy and the significance of any shocks to the economy (such as a change in economic policy in the U.S.). The budget is the responsibility of the Minister of Finance, whose officials, because of the tradition of budget secrecy, provide its most important input. Advisers outside the department attempt to influence budgets by providing analysis of topical issues – for example, proposed areas for spending cuts or tax increases.

The long-run influence of the Department on the economy is produced by its suggested changes in economic legislation. The recent Stage One reform of the income tax system is a case in point. Stage Two will deal with sales tax reform. The Department is also working on revisions to legislation covering federally regulated trust companies and the *Bank Act*, whose next revision is due in 1990.

Monetary policy is a natural concern of the Department because of the short-run and long-run effects of such policy on the Canadian economy. The next section, on the Bank of Canada, discusses the role of the Department in this area.

The Department publishes the *Quarterly Economic Review*, of which one issue each year contains reference tables for the main economic, fiscal and financial aggregates for the past few decades.

B. The Bank of Canada

The Bank's primary task is to maintain the stability of the domestic currency. In practice, this means that it formulates and implements monetary policy so as to curb inflationary pressures. To do this, the Bank influences interest rates and thus the rate of growth of total spending in the economy. Between 1975 and 1982, the Bank emphasized the growth of the narrow monetary aggregate, M1, defined as currency plus demand deposits at chartered banks. Even during this period, however, the cutting edge of monetary policy was short-term interest rates; the growth of M1 was a useful indicator of monetary expansion and inflationary pressure — one of several indicators used — but the control of M1 was never an end in itself.

Although the focus of monetary policy, short-term interest rates, is narrow, the Bank must take a broad view of economic developments in Canada and in other countries, especially the U.S., to determine the desired level for these rates. The four policy departments give an indication of the broad view.

- Department of Monetary and Financial Analysis
- International Department
- Research Department
- Securities Department

The title "Research Department" is somewhat misleading as all the policy departments carry out research in their specific areas. The Research Department monitors developments on the "real" (or non-financial) side of the economy, including fiscal policy as set by the Department of Finance.

Obviously, fiscal and monetary policy interact. Neither the Bank of Canada nor the Department of Finance can ignore the other, and their policies, in the long run, must be consistent. The Bank is independent of political pressure in the day-to-day operations of monetary policy, although the *Bank of Canada Act* recognizes that the ultimate responsibility for monetary policy rests with the federal government.

There are two ways in which the federal government ensures that monetary and fiscal policy are consistent. the first is by regular consultation between the Governor of the Bank and the Minister of Finance, as required by the Act, and the second is by constant but informal consultation between senior officials of the Bank and the Department.

It is possible, of course, that even with consultation, the Governor and the Minister could disagree over the stance of monetary policy. As a last resort, the Minister may issue the Bank a written directive, approved by the Governor in Council, setting out the monetary policy to be followed. The directive must cover a specific time period and set out specific terms (that is, it must do more than say that future monetary policy is to be eased or tightened). To date, no such directive has been issued. Most observers feel that in such a case the Governor would resign and there would be a crisis of confidence in money and exchange markets.

In addition to formulating and implementing monetary policy, the Bank is responsible for the issuance of bank notes and acts as fiscal agent for the government and as its agent in the operations of the Exchange Fund Account and related foreign transactions. The agency roles are linked to monetary policy, as changing interest rates affect the cost of the national debt and the level of exchange rates.

The Bank of Canada publishes weekly financial statistics, a monthly review containing more comprehensive statistics and articles on the Canadian economy, and technical papers and reports written by professionals both at the Bank and outside it.

C. Treasury Board

The Treasury Board was established in 1867 as a committee of the Queen's Privy Council for Canada. As seen above, it continues to have an important role among Cabinet committees. The Board consists of six members: the President of the Treasury Board, the Minister of Finance, and four other Ministers. It authorizes spending for programs already approved.

In 1966, the Treasury Board Secretariat was established as a separate department of the government, with the President of the Treasury Board as its Minister. The Treasury Board is charged with managing the financial and material resources of the government. As official employer of the public service, it supervises employee compensation and job classification and conducts labour negotiations with public service unions. As supervisor for the government's budget, it reviews and approves the spending plans of each federal department and agency.

D. Auditor General (AG)

Although the Office of the Auditor General was established in the late nineteenth century, the AG's mandate was redefined and broadened with the *Auditor General Act*, 1976-77. The AG is appointed by the Governor in Council as auditor of the accounts of Canada. As well, the AG audits a number of Crown corporations, expresses an opinion on the financial statements in the Public Accounts, and brings to the attention of the House of Commons anything significant with respect to the management of public funds.

Each year, the Auditor General puts out a report that includes observations on the government's financial statements, annual audits of government agencies and departments, follow-ups from previous annual reports, and special audits. The Auditor General's report for 1988 was a massive 600-page document. Media and public attention naturally focuses on the horror stories in the report — boats that won't float, helicopters that won't fly and bridges that lead nowhere — but there is much more in the report than sensational stories. The central concern is with the need for accurate, timely, comprehensible information that will allow policy makers to monitor the effectiveness of their policies.

Since the AG analyses the effectiveness of policy and exposes any overspending or possible mismanagement of public funds, he has some influence over current economic policy.

E. Director of Investigation and Research (Bureau of Competition Policy)

With the recent increase in merger activity, the Director of Investigation and Research in the Bureau of Competition Policy is often in the news. Part VIII of the new *Competition Act* requires parties to a large merger proposal to notify the Director and provide information on the proposal. The Director then determines whether the merger will prevent or substantially lessen competition in Canada. As the Director's Annual Report for the year ending 31 March 1988 points out:

> The *Competition Act* provides that the assessment of merger transactions is not to be based solely on quantitative criteria such as concentration ratios or market share. Thus, a non-exhaustive list of qualitative factors that may be considered in assessing a merger is contained in the legislation. Of these factors, the extent of current or likely foreign competition and the existence of tariff or other barriers to entry are playing an increasingly significant role in some merger assessments as trade considerations become more important in the changing global environment. In addition, the efficiency gains provision is increasingly being relied upon by parties in their submissions regarding proposed mergers and has been an important consideration in our assessment of a number of mergers. In assessing efficiency gains, international trade effects are taken into account in accordance with the Act.

The Director also investigates criminal law prohibitions against agreements to lessen competition, anti-competitive behaviour and deceptive marketing practices. He also conducts inquiries into non-criminal matters, such as tied selling. These activities of the Director are discussed in the Annual Report, which is part of a new public education and information program.

F. Statistics Canada

Unlike other countries, in which economic data are generally collected by individual users (for example, in the U.S. the Bureau of Labor collects labour force statistics while another agency collects data on the national accounts) Canada has a centralized statistical agency — Statistics Canada. This agency collects, processes and distributes data on most aspects of Canadian society and the economy. It also cooperates with other federal agencies (for example, the Bank of Canada) and provincial departments to improve the flow of data in the country. The breadth of information provided by Statistics Canada is staggering. For almost any analysis of policy, actual or proposed, Statistics Canada provides a starting point. Statistics Canada has a very important, although necessarily indirect, influence on economic policy.

G. Investment Canada

In mid-1985, the Foreign Investment Review Agency (FIRA) was transformed into Investment Canada. Both were established to provide the federal government with the authority to review foreign investment in Canada, although they reflect different attitudes towards such investment. FIRA was established to screen foreign investment and ensure that it was a "significant benefit to Canada." Investment Canada's role is to encourage and facilitate domestic and foreign investment that will benefit the country. The *Investment Canada Act* substantially narrowed the foreign investment that requires review by Investment Canada. Reviewable investments include:

- direct acquisitions of Canadian businesses with assets of $5 million or more;
- indirect acquisitions (i.e., acquisitions resulting from the acquisition of a parent company outside Canada) of Canadian businesses with assets of $50 million or more;
- indirect acquisitions of Canadian businesses with assets between $5 million and $50 million if the Canadian assets represent more than 50% of the total value of the international transaction; and
- acquisitions or new businesses in "prescribed" business activities related to Canada's cultural heritage or national identity, if the government considers a review to be in the public interest.

New businesses, unless included in the last category, do not need review.

H. Office of the Superintendent of Financial Institutions (OSFI)

OSFI came into being in 1987 as a designated department of the government, with the Minister of Finance as its head. The deputy head of OSFI is the Superintendent of Financial Institutions, who, with some additional powers, replaced the previous positions of Inspector General of Banks and the Superintendent of Insurance. OSFI has two main functions: regulating financial institutions and employer-employee pension plans under federal jurisdiction, and providing actuarial services to the government. Under the first function, OSFI has recently been concerned with the capital adequacy of financial institutions, given international competition; the questionable status of Third World debt; and increasing links between different types of financial institutions (for example, bank ownership of brokerage firms). OSFI also occasionally finds itself perceived as a financial ombudsman.

I. The Economic Council of Canada

The Economic Council of Canada was established in 1963 to advise on the best means by which Canada could achieve the highest possible levels of employment and efficiency while enjoying consistently high economic growth. It may conduct and report on any study related to its duties and possibly make recommendations to the government. The Council is required to publish an annual review of the medium- and long-term prospects and problems facing the economy. Although the Economic Council reports to Parliament through the Prime Minister, it does not have a direct role in making economic policy.

J. National Council of Welfare

The National Council of Welfare was established by the government in 1969 as a citizens' advisory body whose mandate was to advise the Minister of National Health and Welfare on welfare matters. There are 21 members of the Council, drawn from past and present welfare recipients, public housing tenants, other low-income citizens and concerned professionals. Council reports deal with a wide range of issues, such as income security programs, medicare, poverty lines and poverty statistics.

K. The Canadian Tax Foundation

The Canadian Tax Foundation is an independent tax research organization whose Governors are nominated by the Canadian Bar Association and the Canadian Institute of Chartered Accountants. The Foundation provides impartial research, carried out by a permanent staff and by outside experts commissioned for special studies, on current problems of taxation and government finance. The Foundation publishes the *Canadian Tax Journal* (every two months), *National Finance* (every year), and *Provincial and Municipal Finances* (every two years).

L. The Fraser Institute

The following is the Institute's description of itself:

> The Fraser Institute is an independent Canadian economic and social research and educational organization. It has as its objective the redirection of public attention to the role of competitive markets in providing for the well-being of Canadians. Where markets work, the Institute's interest lies in trying to discover prospects for improvement. Where markets do not work, its interest lies in finding the reasons. Where competitive markets have been replaced by government control, the interest of the Institute lies in documenting objectively the nature of the improvement or deterioration resulting from government intervention.

The Fraser Institute is a national, federally chartered, non-profit organization. It is funded by contributions from its members and proceeds from the sale of its publications, which include studies on affirmative action, rent control, competition policy and taxation in Canada.

M. The Institute for Research on Public Policy (IRPP)

The following is the Institute's description of itself:

> Founded in 1972, the Institute for Research on Public Policy is a national organization whose independence and autonomy are ensured by the revenues of an endowment fund which is supported by the federal and provincial governments and by the private sector. In addition, the Institute receives grants and contracts from governments, corporations and foundations to carry out specific research projects.
>
> The *raison d'être* of the Institute is three-fold:

- to act as a catalyst within the national community by helping to facilitate informed public debate on issues of major public interest;
- to stimulate participation by all segments of the national community in the process that leads to public policymaking; and
- to find practical solutions to important public policy problems, thus aiding in the development of sound public policies.

Consistent with its objectives, IRPP publishes studies that cover a wide range of topics. Publications range from the general (for example, a 1987 study on the future of social welfare systems) to the specific (a 1987 study of the softwood lumber dispute).

N. Consulting Groups

There are probably hundreds of consulting firms in Canada. Some are one-person operations with a narrow focus. Others are large groups capable of research on almost any economic topic. Some of the larger organizations use macro-econometric models to forecast GNP, unemployment, the level of prices and interest rates, and many other economic variables. Among the organizations with large econometric models of the Canadian economy are the Conference Board of Canada, Data Resources of Canada, Informetrica and the Institute for Policy Analysis (connected with the University of Toronto).

These consulting groups have an indirect influence on economic policy since they can provide new or more accurate information to influence policymakers. By specializing and focusing their research, consulting firms, even small ones, may provide information that is unavailable or not readily available to public servants. Large firms can also influence policy through the publicity given by the media to their forecasts and studies.

O. Lobbyists

Lobbying, like advertising, has two functions — it persuades and it informs. Because changes in economic policy can have huge impacts on specific industries, it is not surprising that industries or even individual firms spend money trying to influence policy. Consumers are, of course, also affected by changes in economic policy, and there are consumer lobby groups such as the Consumers' Association of Canada. Professionals, for example, lawyers and accountants, also have organizations that attempt to influence legislation.

The caricature of the lobbyist is of one who influences policy through personal ties to policymakers or by misrepresentation of the effects of proposed policy. Though there may be some cases where this is true (just as any caricature may at times be true), in practice the lobbyist's greatest influence comes from the accuracy of the information he or she provides to policymakers. A lobby group representing, for example, the insurance industry may have access to industry data otherwise unavailable to the Department of Finance.

The new data may greatly influence a proposed policy change. And accurate data should have an influence on policy. Naturally, data presented by an industry will be biased — to the extent that its lobbyists would not voluntarily provide information that would promote policies they regarded as unfavourable, such as heavier taxation of that industry — but the data will be accurate. Any lobbyist providing false information would soon have no job. Recognizing the bias in a lobbyist's presentation is obviously important, but lobbyists can still be the best source of information on specific policy proposals.

P. Financial Journalists

The benefits of competition can be seen in the improvement in financial journalism in Canada over recent years. The *Financial Post* now publishes daily and competes with the *Globe & Mail* business section, while other daily newspapers must compete with these two national dailies. The result is increased coverage of business and financial news. All the dailies, in turn, face competition from the weekly *Financial Times*, specialized magazines such as *Canadian Business* and the *Globe & Mail's Report on Business*, and the increased economic coverage in magazines such as *Maclean's*.

In addition to the Canadian print media, there is foreign competition: the daily *Wall Street Journal*, the weekly British *Economist* and *Business Week*, and the bi-weekly *Fortune* and *Forbes*. There are also radio and television reports on business.

In the last decade, competition has increased the quality of financial journalism as well as its quantity. More and better economic journalism should have an increased effect on economic policy, both by influencing public opinion and by providing information and analysis to policymakers.

INTERNATIONAL ORGANIZATIONS

Since Canada has an open economy, its economic policy is influenced by what happens in other countries, especially the United States. Because of the importance of trade, financial flows and the state of the world economy, Canada is active in many international organizations. This participation allows Canada to exchange information with other countries and gives it a voice in the world economy. As a small country, Canada will usually not have the same impact as Germany or Japan, but being active with some possible influence in a world organization is better than having no say in policy debates.

The following descriptions are based on information in *The Europa Year Book* for 1988.

A. General Agreement on Tariffs and Trade (GATT)

GATT was established in 1948 as a multilateral treaty aiming to liberalize world trade. It is based on several fundamental principles.

- trade must be based on non-discrimination (the famous "most-favoured-nation" clause whereby all contracting parties are granted treatment as favourable as received by any country);
- protection is given essentially through a customs tariff (to make level of protection clear);
- binding tariff levels negotiated among contracting parties are listed for each country in tariff schedules;
- consultation is used to avoid damage to the trading interests of contracting parties;
- when economic circumstances warrant, a member may seek a waiver from a particular GATT obligation;
- trade problems of developing countries receive special attention; and
- GATT offers a framework for negotiations to reduce tariffs and other barriers to trade, and a means for putting the results of such negotiations into a legal instrument.

Since the beginning of GATT, there have been seven rounds of multilateral trade negotiations. These rounds have contributed to the reduction in tariffs throughout the world and to the growth of world trade. Canada is, of course, an important player in these negotiations. The two most recent rounds were the "Kennedy Round" (1964-67) and the "Tokyo Round" (1973-79). A new round began in September 1986 in Punta del Este, Uruguay (hence the name "Uruguay Round").

B. International Bank for Reconstruction and Development (IBRD or World Bank)

The World Bank was established at the end of 1945 and at first concerned itself with post-war reconstruction in Europe. Since that time, the World Bank has redirected its focus towards the less developed countries in the world. It assists the economic development of member countries — there are over 150 members — by making loans where private capital is not available on reasonable terms to finance productive investments. Along with the loans, the Bank provides technical assistance in the form of economic, sector and project analysis. The Bank's capital comes from members' subscriptions to capital shares; part is paid-in and the rest is subject to call if required. In mid-1987, the total subscribed capital was $85.2 billion (U.S.) of which 9% was paid-in.

The Bank puts out numerous publications, including the *World Bank Annual Report* and the annual *World Development Report*, which provide useful surveys of the state of the world economy. Because of the nature of its activities, the World Bank is obviously concerned with the Third World debt crisis and produces an annual publication, *World Debt Tables*, that provides basic information on this subject.

C. International Monetary Fund (IMF)

The IMF was established at the same time as the World Bank. Its purpose is to promote international monetary cooperation, the balanced growth of trade, and stability in foreign exchange. Founders of the IMF wished to avoid the competitive devaluations that occurred during the interwar period. To do this, they established a permanent institution that would allow continuous consultation and collaboration on monetary problems.

Using its general resources, the Fund can provide temporary assistance to allow members to correct maladjustments in their balance of payments without resorting to measures harmful to domestic or international prosperity. Members' subscriptions form the basic resource of the IMF. In mid-1987, Canada's quota represented 3,27%. Capital borrowing supplements the subscriptions, which are related to a member's national income, monetary reserves, trade balance and other economic indicators.

Like the World Bank, the IMF produces many useful publications that survey the world economy and provide data for international comparisons of important economic variables. The most important source of international statistics is probably the IMF publication *International Financial Statistics*, which is published monthly and annually.

D. Organisation for Economic Co-operation and Development (OECD)

Founded in 1961, OECD replaced the Organisation for European Economic Co-operation (OEEC), which had been established in 1948 in connection with the Marshall Plan. At OECD, representatives of the governments of the industrialized democracies discuss and attempt to coordinate economic and social policies. The main vehicle used for this coordination is the Economic Policy Committee, which is composed of chief economic advisers and central bankers. It meets two or three times a year to review economic and financial developments and the policies of member countries.

The Economic and Development Review Committee examines the economic situation in each country and then usually issues a report. This Committee is one of about 200 bodies (committees, working parties and other groups) that cover almost all aspects of economic and social policy, and produce a wealth of regular and occasional studies on energy, science, technology and industry, the environment, manpower, social affairs and education, as well as straightforward, economic studies on trade, finance and fiscal policy. Like those of the IMF, OECD data are useful for anyone making international comparisons.