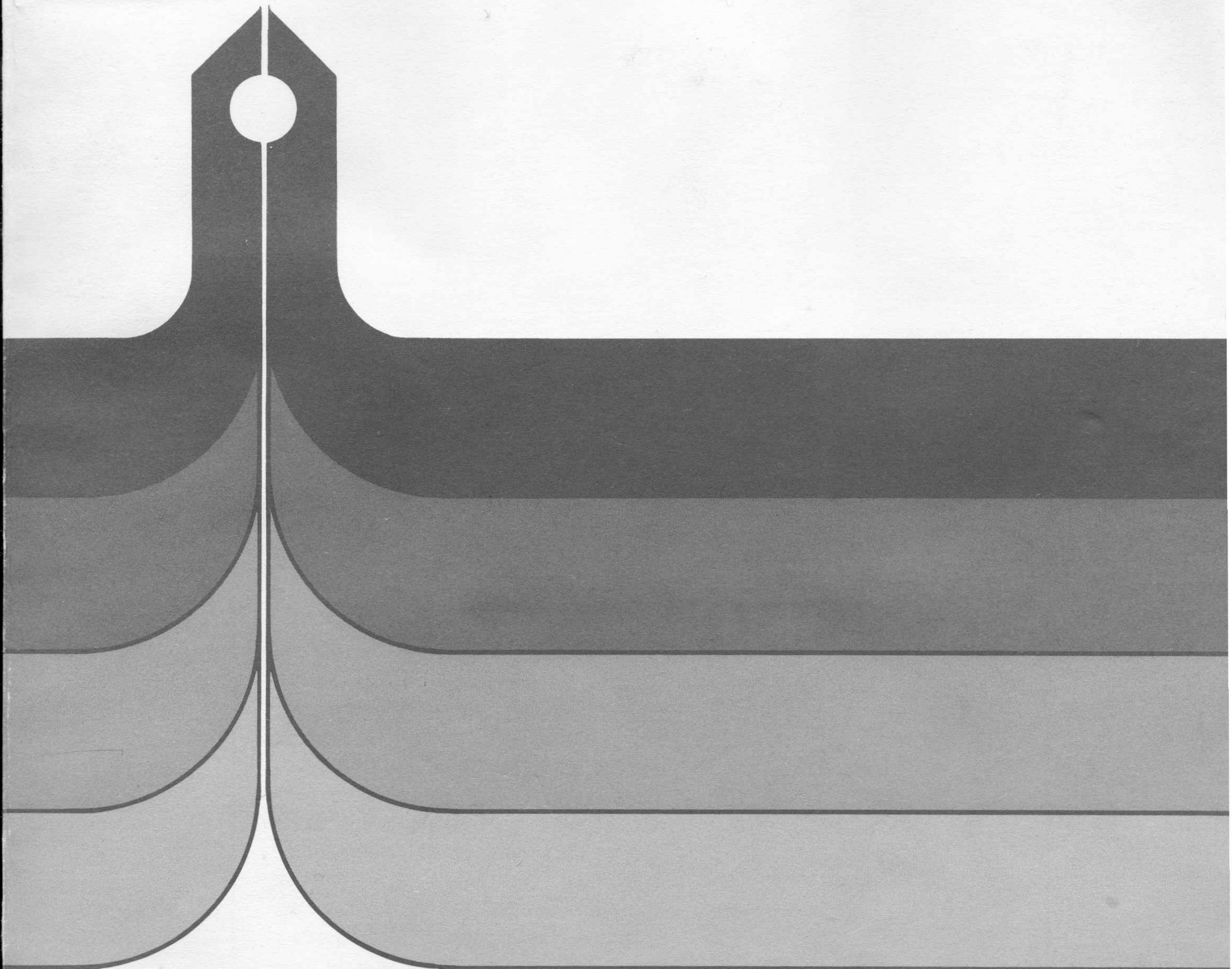
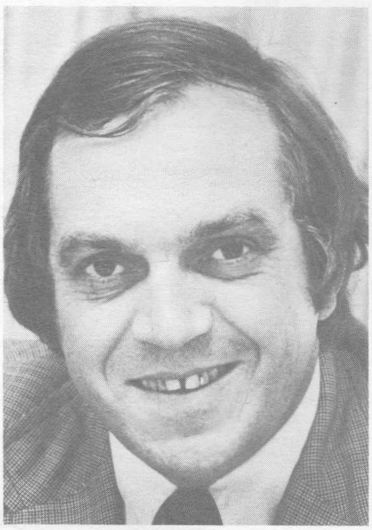


National Priorities



"The National Priorities series of working papers is an attempt by the federal New Democratic Party to expand the policy-making process so that it involves the greatest number of Canadians possible. The papers have been drafted and worked upon by many people. They represent all elements of the party and experts in a variety of disciplines. As leader of the NDP, it is my hope that these papers will provide a sound base for the discussion of new policy directions at the 1977 Convention in Winnipeg."

—Ed Broadbent.

NATIONAL PRIORITIES

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Overview Paper

NATIONAL PRIORITIES FOR NEW DEMOCRATS - AN OVERVIEW

I: INTRODUCTION:

It is hard in 1977 to remember the spirit of Expo. Ten years ago, this country had a booming economy, Quebec was the focus of a grand centennial birthday party, and exciting new government programs (like Medicare) were settling into place, giving Canadians more social security than they had ever had.

There was an optimism and excitement in the country; the prospects for Canada seemed limitless.

Ten years later it is hard to believe how things have changed.

The official statistics tell us that almost a million Canadians are unemployed; and we know there are hundreds of thousands of others who have left the labour force in despair.

Building on economic discontent, a separatist government rules Quebec, and is using all the tricks of the political trade to gain support for the break-up of Confederation.

Meanwhile the federal government has lost confidence in its own capacity to improve Canadian life; it has retreated from its social reforms of the sixties, and is paralysed in its economic policy. No creative ideas come from the cabinet these days; that cabinet is tired and scared of the future.

And the future does look bleak. Canada has huge investment expenditures in front of us to maintain our energy supplies. There will be a legacy of labour bitterness when the AIB controls are finally ended. The uncertainty over Quebec dismays investors and blocks economic recovery. Canadian industry has not been modernizing, and is less and less competitive against international trade. And all the signs suggest even more unemployment in the future, especially among the young.

This is the Canadian crisis to which the New Democratic Party must respond.

There are no easy answers to such a set of complex problems. In particular, the easy Conservative answer of leaving the solutions to the private sector is dangerously simple-minded. That answer didn't work in the Depression of the thirties when a Conservative government tried it; and it won't work now. The NDP knows that our community will have to work together through government to make effective progress.

But the NDP also knows the country can't afford the makeshift, spendthrift answers that Liberal governments have traditionally given to economic problems. If Canada is going to cope with its complex difficulties, governments must plan, carefully and comprehensively, how they can intervene efficiently and fairly in the economy. Cumbersome bureaucracies and waste have marked the unplanned, disorganized Liberal government; the NDP knows better government, not bigger government, is what we need.

This party has always believed that economic planning makes sense. Now, in this crisis period, we know such planning is not only preferable - it is absolutely essential. But planning is not a simple, overnight exercise. And so the New Democratic Party has set out on a long process of making its planning ideas more clear-cut and understandable.

Following the suggestions of federal party Leader, Ed Broadbent, the executive and council of the Party set up a National Priorities Task Force in late 1975. The results of this Task Force effort are now coming to the Winnipeg Convention in a set of discussion papers and a series of resolutions based on those papers. The work of this Task Force has been the <u>first stage</u> in making our planning ideas more clear-cut.

The Task Force has had discussion studies prepared on two of the major priorities of the party, achieving full employment and shaping a fairer tax system, and on five of the key economic sectors in Canada: food and agriculture; housing; the petroleum sector; mineral resources; and the transportation sector. Each of these studies assesses present policies in these priority areas, showing serious federal government failures within each; the studies then suggest the revised policies needed to meet Canadian objectives in each area, and discuss how these policy changes could be implemented.

There has been significant party and non-party participation in the preparation of a number of these studies. But it is at this <u>second stage</u> in planning our priorities - the Convention stage - that the full participation of the party membership becomes underlined.

More than anything else, planning is about participation. In a planned economy, people have a say in what happens to their communities; change isn't just left to the uncontrolled market system. So the participation of people in the planning process is an end in itself, as well as a means to better planning.

For participation to be effective, though, people require a solid information base. That is the other reason for circulating these priority studies so widely before the Convention - so every delegate has full access to background information on these priority areas, and is better able to shape sensible policies.

These discussion papers then, are not party policy. They are proposals for the discussion of new party policy which has to take the constitutional route of adoption through regular party bodies. But these studies are essential first-stage planning documents, providing the background on the present and some of the options for the future on which informed convention debate can be based. Resolutions drawn from these studies will, moreover, be among those being debated, since such resolutions have been forwarded by various constituency associations.

After this second stage of full party discussion of national priorities, an even more critical <u>third stage</u> is reached: a stage at which the NDP takes its ideas and arguments to all Canadians, for full public participation in the choosing of priorities for the eighties.

NDP members will want to sit down with community groups and discuss our transport and housing options; we will want to talk with farmers and consumer advocates about food and agriculture; we will want to ask unions and poor people's groups about our employment plans; we will want to consult mining communities on our mineral policy views; and we will want women's groups to evaluate the equity of our tax reform suggestions.

We will want to keep working within the party, too, considering other key sectors that we have not yet studied in detail - and reaching the stage where we can suggest which of these national priorities are most important, and which ideas will have to have lower priority until our most urgent plans are accomplished. The Party's planning studies have not yet reached a point where such comprehensive prioritizing is possible. Nor should that point have been reached yet because full planning participation is just beginning to occur.

There are no easy answers, then, to the Canadian crisis. And there is no simple, overnight process by which answers can be shaped. But this national priorities effort is the necessary beginning, in the long, hard development of the better plans by which Canada can progress.

"Democratic socialism", wrote British MP Aneurin Bevan, "accepts the obligation to choose among different kinds of social action and in so doing to bear the pains of rejecting what is not practicable or less desirable." In planning our national priorities we are accepting that obligation to choose.

II: THE PROBLEMS IN CANADA AND THE NEED FOR PLANNING:

A. The Nature of the Problems

The state of the Canadian economy is generally measured by indicators such as gross national product, average income, increases in factory shipments, etc. Such indicators do not show how income and opportunities are distributed, nor do they accurately measure economic and social well-being and the changes that may occur over time. One must instead look at the distribution of income, the distribution of employment opportunities and the distribution of goods and services among people, between regions, and over time, in order to recognize the fundamental and persistent problems affecting Canada. These problems fall into the following categories:

1) Unemployment - Currently at 8.5% - the unofficial rate is undoubtedly much higher - this represents one million people who are out of work and seeking jobs, people who could generate essential goods and services for themselves and other Canadians, if given the opportunity. The rate varies from one out of 20 unemployed in Alberta to one out of five in Newfoundland, officially, and could be as high as one out of three in Newfoundland. According to these statistics, some parts of Canada have entered a period as bad as that experienced during the 1930's depression. Unemployment has fluctuated both seasonally and from year to year. In the last decade national unemployment has fluctuated between 2.7% and 7.4%.
   By international comparisons, Canada's unemployment rate has been considerably higher than that of almost all European industrialized nations over the past two decades.

2) Poverty and Inequality - Income is distributed in Canada in a highly inequitable manner. In census years 1951 and 1971, the poorest 20% of all families received 6.1% of total family income, despite a significant change in government income supplement, and other transfer payment programs. Almost 1/3 of the population lives below what the Senate has defined as the poverty level.

   An analysis of average incomes over the last 20 years shows that incomes are highly dependent upon type of occupation. More strikingly, those occupations which had above-average incomes 20 years ago had greater percentage increases since then, than did those with below-average incomes. Certain groups with greater bargaining power, particularly professionals, improved their relative positions still further, while those without much bargaining power (service sector workers, pensioners, fishermen) were victims of an ever-widening gap in income disparities.

Average income varies considerably among regions of Canada, with per capita incomes in Ontario about 50% higher than those in the Maritimes.

Another aspect of increasing poverty and inequality is evident between generations. As individuals retire, they experience a significant decrease in income, often in the face of an increasing cost of living. Recent inflation rates have exacerbated the degree of loss of real income, and created a new class of poor - those who have retired or been retired.

3) Inflation - A real decline in living standards has been experienced by a significant segment of the Canadian population. Despite the AIB, inflation rates are again increasing, demonstrating a total inability of the current Government and business leadership to deal with this problem. The Government has traditionally permitted or encouraged higher unemployment to attempt to reduce the inflation rate, thus forcing those with little, to bear the brunt of economic sacrifice for the benefit of the wealthy. Even this Draconian measure is not working although unemployment has been permitted to rise to 8.5%.

4) Economic Instability - The Canadian economy shows a marked instability over time. Growth rates over the past 20 years, like the level of employment, have fluctuated enormously, from over seven per cent to less than one per cent. Moreover, attempts by Government to offset the effects of the way the private sector operates in Canada have often involved cutting back or stimulating investment in an irrational manner. In the housing sector, this may involve setting a level of housing starts which has no relation to the current need for housing, in the name of evening out private forces which affect inflation or employment.

5) Overall Growth - Compared to other industrial nations, Canada's growth in per capita income has been poor. Canada had the second highest standard of living in the world in 1960, but by 1973 had been overtaken by Denmark, Germany and Sweden. Growth in productivity per person employed has been consistently below that in almost all industrial nations over the last 20 years.

6) Regional Disparities - Aggregate statistics show the relative lack of income and employment opportunities in many provinces. Wide disparities exist within provinces. What is often ignored is that regional economic inequalities invariably lead to regional social inequities in terms of access to social goods and services, such as

education, recreation, health, housing and transportation facilities. Lack of economic opportunities give rise to feelings of "Western Alienation" on the part of western Canadians, and explain some of the impetus behind the movement for separation in Quebec.

The degree of regional disparity is marked by extensive migration of people out of poorer regions. People have been forced to leave their region because of economic circumstances. Not only does social disruption occur as a result of this out-migration, but the social and economic costs of resettlement are often greater than if job opportunities are brought to the region the individual was compelled to leave. The most highly trained people have left the regions most in need of entrepreneurial talent and expertise.

7) Participation - Increasing concentration of power in the hands of larger corporations, the structure of multinational corporations where many decisions are often made outside Canada, and the increasing complexity of government combine to leave the average Canadian with feelings of alienation

There may not be the opportunity to participate in decisions which affect individuals. The opportunity may be present but with little meaning because power has not been delegated to the level of citizen involvement. As a result, decision-making in Canada is being concentrated in the hands of fewer people. Canada has been divided into two classes - a small group of the elite who govern business and industry, and the 99% of the population who are governed.

The growth of multinational corporations is a more recent phenomenon which markedly circumscribes the ability of institutions within Canada to influence Canadian developments. The people of Canada, through their Government, thus have increasingly less control over their destiny.

8) Distribution of Resources - Decisions on what goods and services are to be produced in Canada and their allocation are made by "the market system". Demands in the market-place are based on incomes that people have. Because of the unequal way income is distributed in Canada, a significant proportion of the Canadian population do not have enough income to command a fair share of goods and services to meet their basic needs.

A minority of people in Canada has incomes which enable them to demand luxury goods and services beyond their needs. The net result is that the production of goods and services in Canada bears little relation to the basic needs of people for decent housing, nutritious food, a healthy environment, access to recreational facilities and adequate public transportation.

Advertising influences people to purchase what is most profitable for business to produce, not what is most essential for their well-being. Many goods such as recreation, public transportation, a clean environment, do not enter into the market system, and often cannot "command" the resources needed to make them available at a level which meets basic needs.

In other instances, there is a substantial difference between "private costs" and "social costs" of certain goods, that is, there is a difference between costs to the individual purchaser or individual firm operating in the market and the costs to society as a whole.

For instance, a firm producing steel may make $1,000,000 profit per year on its balance sheet. But it also produces pollution which eliminates adjacent fishing and forestry operations that previously employed a thousand people and also generated profits. The real costs to Canadian society of having a million people unemployed are not simply U.I.C. payments. The real cost is represented by the value of goods and services that these people could have produced for the benefit of Canadian society. This calculation does not attempt to assess the horrendous social costs in health, poor housing, crime etc. directly attributable to high levels of unemployment.

The market system, as it currently operates does not reflect such social costs and benefits, and therefore results in inequities and tremendous waste. For instance, the market system guided by the profit motive, produces and encourages people to consume relatively non-nutritious food. The economic costs of nutrition - related diseases, as reflected in direct hospital costs of our poor eating habits, have been estimated at $916 million in 1974. These costs are borne by the Canadian taxpayer, not by the private sector and are not reflected through the market to the firms which are causing the problems.

9) The Response of Government - The problems generated by the market system are not temporary, nor are they minor. Problems of unemployment, poverty, regional disparities and the unmet needs of Canadians are long term, fundamental problems that are not being addressed by the private sector. The response of Government has also

been inadequate.

The primary Government response to unemployment has been unemployment insurance. The U.I.C. program now costs Canadians $3 billion per year, but it does not address the causes of unemployment, it merely eases the burden to individuals affected. This eases demands on the Government to get at the roots of unemployment. U.I.C. has become the great analgesic for the pains experienced by the Canadian economy.

Government has provided certain goods which meet basic needs where the response of the market system has been inadequate. In the area of housing, for instance, CMHC has been involved in the construction of tens of thousands of units of public housing, and is now paying rent supplements to people whose incomes from employment in the private sector are inadequate to meet the full costs of rent. Such subsidies now amount to over $400 million per year.

And yet, such a program falls short of the need for decent housing in Canada. Clearly, there are limits to the Government's financial ability to continue to alleviate such effects of an inadequate market system.

The increasing demands on Government services, most of which are critical to meet people's needs, are also straining the ability of Government institutions to respond.

The degree of centralization of control within Federal Government bureaucracy and rigid regulations are frustrating its ability to serve the needs of Canadians. A Civil Service demoralized by these frustrations fuels increasing bitterness towards "Big Government". The attack should be directed at an inefficient, wasteful Government incapable of responding to Canadian needs. The costs of this paralysis in terms of both dollars and mistrust are enormous.

The Government's ability to respond is constrained by the role it has established for itself, by the locus of decisionmaking in Canadian society and by its lack of political will.

Key economic decisions are made by the private sector. Government responds only to treat the negative effects of those decisions, rather than addressing the causes. Government often responds after the fact, sometimes acting in a way which reinforces the cyclical swings of unemployment and inflation in society rather than preventing such cycles. The accepted orthodoxy says there are two instruments available to Government for combatting these swings - to stimulate private investment through deficit spending and/or money creation. But Government spending in practice is concentrated on increased non-productive activities and/or welfare transfers. Both of these expenditures enlarge the relative size of the government sector, but don't significantly increase the capacity of the economy to produce goods. The question must be asked whether it would not be cheaper to the Canadian economy, to Canadian society, for Government to involve itself in dealing with causes of problems, rather than only effects.

B. The Economic Structure of Canada

To what extent are the problems as outlined above shaped and influenced by the structure of the Canadian economy?

As discussed above, the Canadian economy does not produce and allocate goods in a way that fully meets Canadian needs. In fact, much of the production that occurs in the Canadian economy is destined for export, while much of what is required in Canada for consumption and investment purposes is imported.

There is thus a double dependence - Canada produces goods for markets beyond its control, and imports goods from producers beyond its control.

The dominant export industries are resource-based. They are capital-intensive, not job-intensive, which means that attempts to stimulate the dominant industries in Canada benefit machinery manufacturers more than Canadian workers or Canadian unemployed. The amount of processing of Canadian raw materials into finished goods, or even intermediate goods, is limited. As such, the majority of jobs based on use of Canadian resources are often generated abroad, not in Canada. Canadians find themselves in the curious situation of purchasing imported finished goods made from Canadian resources.

Resource export markets are characterized by wide fluctuations in price, which are often responded to by consequent changes in production, which in turn create instability in employment and investment.

Much of the production within the resources sector is conducted by large, integrated multinational corporations which have processing facilities outside Canada, with little interest in establishing similar facilities here.

The large resource based operations have evolved out of Canada's history of production for export of staples such as fur, fish, lumber, wheat and mineral resources, which have historically dominated the Canadian economy.

Canada's imports are dominated by the import of manufactured goods. Among industrialized nations, Canada is the world's largest importer of manufactured goods, on a per capita basis! In 1975, we were net importers of manufactured goods to the extent of $440 per person, or over $9 billion.

The production of manufactured goods generates comparatively more jobs per dollar of investment than the extraction of resources. Therefore we can no longer afford to be complacent about the current structure of the Canadian economy.

Canada's machinery and equipment needs are also largely met by imports.

For the most part, the Canadian manufacturing sector has been inefficient and uncompetitive. Fostered by tariff protection, much of Canadian industry was established in the form of branch plants replicating larger, efficient plants owned by the parent corporation in the home country. Some manufacturing sectors have a half dozen plants competing for a market in Canada large enough for only one plant.

The high unit costs of such inefficiencies must be paid for by the Canadian consumer, through high prices, and the Canadian worker, because productivity in an inefficient plant is much lower. Canadian workers bear the burden of investment mistakes through low wages.

An increasing degree of concentration among Canadian industries has also occurred. Protected by tariff walls, and secure in their market power, a small number of firms dominate each of several sectors. They are able to hide large inefficiencies because of the tariff, and to prevent the entry of new domestic industry.

Guaranteed profits by their market power, they have little incentive to innovate, to develop products needed by Canadians, and to make their operations more efficient.

The branch plant structure of much of Canadian manufacturing industry, leaves many of the management, research and development functions at head offices outside Canada. Thus, jobs generated by such functions are not located in Canada.

Research and development into new products, which in turn generates new manufacturing activities and new employment takes place largely outside of Canada. The level of Research and Development expenditure in Canada, compared to other countries, is insufficient to support much new industrial development.

According to a recent report from the National Research Council, Canadian industry spends a mere 0.35% of GNP on Research and Development, compared to 1.0% to 1.7% by firms in the leading industrial countries of the world.

Real control over the behavior of many corporations rests outside Canada. Because of their financial power, and their ability to transfer functions and profits to other divisions outside of Canada, the Canadian Government has limited ability to control such corporations.

The flow of interest and dividends out of Canada, arising largely from the foreign ownership of such corporations further limits the Government's options in managing the

Canadian economy. Almost $2 billion in interest and dividends was paid abroad in 1975. On top of this financial outflow, foreign subsidiaries also make large royalty and commission payments to their parent firms abroad. In 1973, for instance, foreign-controlled enterprises here paid over $750 million in such business service payments to their affiliates outside Canada.

Business can always refuse to invest, as it chose to do when A.I.B. profit guidelines began to be felt. Such investment "strikes" are difficult for a Government to combat when facing multinational corporations with many more options for avoiding controls than small businesses.

A large proportion of jobs in domestically-controlled manufacturing industry is concentrated in the clothing, textile and shoe-manufacturing industries (e.g. 20% of Quebec manufacturing employees were in these three industries in 1971). Although labour-intensive, these industries have grown up behind tariff walls which have nurtured their inefficiencies. They produce goods needed by Canadians, and are important sources of employment in Manitoba, Quebec and depressed parts of Ontario, but survive by paying low wages to their workers. (Average 1975 wages in shoe-manufacturing, for instance, were $3.42 per hour compared to $5.14 in manufacturing as a whole.) Moreover, these industries continue to be protected by tariff walls and import quotas. These tariffs prevent imports from Third World countries and result in higher prices to Canadian consumers. These countries which have much more limited employment alternatives than Canada, would like to process their cotton into clothing for export to countries like Canada.

The pattern of public and private investment has reinforced this structure of the Canadian economy and increased its dependence on resource exports. Public and private investment in primary industries and utilities over the past 25 years has been more than double the level of investment in manufacturing.

Investment in primary industries and utilities represented 45% of total non-residential investment in Canada in 1975. When investment in the infra-structure to service extractive industries - transportation, housing and other social capital - is added on, the extent of investment in resource industries and supports is enormous.

As a result of this pattern of investment, the private sector is failing to generate steady investment in those sectors which provide employment and income levels sufficient to solve the problems of poverty, unemployment and regional disparities.

Moreover, a structure of industry has emerged in Canada which, because of its foreign orientation and control, is very difficult for government to reshape using present policy approaches.

C. The Need for Planning

Planning is not a revolutionary initiative. Corporations plan - what to produce, how much to invest, what price to charge, how much to spend on advertising,etc.

Governments plan within their traditional areas of jurisdiction - taxation policy, monetary policy, certain public services, etc. But we have seen that the relationship between business planning and government planning is not a cooperative, constructive one designed to achieve similar objectives.

Business plans and implements, governments plan within the remaining parameters and attempts to treat the effects created by the operation of business. Within the private sector, the planning that is done that is of real importance is that which is done by Big Business.

Because of the structure of these large corporations, much of that planning is done outside Canada. Because of the size of these corporations, their plans dominate major sectors of the Canadian economy - industry, trade, investment, administrative and technological expertise, physical resources and markets.

The remaining competitive domestic sectors of business cannot mobilize these same resources, and must operate within constraints set by the plans of large corporations.

Given the fundamental problems which result from the way planning is now being done by individual big businesses, it is essential that the nature of planning itself change: Planning must be much broader in its considerations, and much more democratic. All segments of society should be involved, not just large corporations. Planning must be based on equitable social and economic objectives. For a rational strategy to make a major impact on the problems which persist in Canada, a significant degree of public involvement in the structuring of supply and demand is essential.

The key area of public involvement in planning is in those sectors where the narrow interests of big business currently dominate the use of resources which could be utilized to meet the basic needs of Canadians - food, shelter, transportation, energy, resources and related industries.

National planning which affects these sectors must be done to ensure that these sectors develop in a way that meets the social and economic objectives of Canadian society.

A few firms within each sector now dominate the way that development in that sector occurs. We believe it is essential that there is public discussion at all levels on how each sector should develop, what the objectives for development should be, and how best the broad social and economic objectives of society can be met.

We are not arguing that public planning be done for all decisions made within each sector, only the critical decisions made by each of the major actors. We are, however, arguing that decision-making should aim to be much more democratic.

The 99% of Canadians who are currently being controlled by forces beyond their reach should begin to participate in decisions affecting their destiny.

Decisions made by informed individuals genuinely concerned about their own welfare will help ensure that imperfections within the market system will begin to be corrected.

For instance, unsafe working conditions can be corrected if workers have a say in decisions within that factory. To cite another example - only when the true costs of eating non-nutritional food, and its effects on individual health are recognized will individuals be able to demand changes in the type of food that is being produced.

Their demands can only be implemented when a strong government is prepared to confront the large multinationals who produce and promote junk food.

By initiating a planning process, by providing information and alternatives, and by listening, the New Democratic Party can provide meaning to people's participation in decisions affecting their lives.

Planning offers a chance for public participation in selecting options. it gives the public more than a reactive role, and creates a more positive role for government. Planning can act against inefficiencies and waste in the public sector - improving the morale of the public service by giving it an initiating function. The costs of unemployment insurance, income supplement programs and temporary make-work projects will be reduced as funds are channelled into productive investments which generate long-term stable employment.

An explicit plan based on social and economic objectives can ensure that investment is channelled into the most productive sectors in the Canadian economy, to generate employment for Canadians at decent wages.

This will require a comprehensive approach to new developments, to ensure that sectors develop in a way that complement each other.

For example, if we are to produce more buses, subway cars, intercity rapid transit cars and upgrade railbeds, the manufacture of such products can be done in Canada. Inputs into the production of these products, including steel, alloys, electronic systems, and manufacturing and fabricating machinery can also be produced in Canada. Research and development on such systems should also be done in Canada.

Only by planning such developments, identifying the linkages and assessing how opportunities in one sector can generate new opportunities in others, will Canada begin to solve chronic unemployment and persistent poverty.

The current structure of manufacturing industry, in which various small plants compete in a market where only one plant is justified can only be dealt with through a planned strategy. Those industries where rationalization would produce cost benefits to the Canadian consumer, and substantial wage benefits to Canadian workers, can only be identified through the process of planning.

The means by which a transition is made, the provision of immediate alternative employment with minimal disruption for workers affected by rationalization, and decisions on production and pricing must be made through an explicit plan which involves the workers to be affected. Government must also be involved to ensure that alternative employment opportunities are made available when required.

The strategy must embody medium and long term objectives. Longer time horizons with proposals tied to specific objectives, and control of investment are also essential to ensure that the instability of business cycles is overcome.

A deliberate effort will be made through a planning process to restructure the Canadian economy, to reduce the degree of dependence on forces beyond the control of Canadians. This will involve the restructuring of supply and demand. Demand must be reoriented to coincide with people's social needs.

Specification of needs, a critical element in any planning process, must be conducted through a broad participatory process. Basic needs to be considered should be wide-ranging, and include nutritious food, decent housing, adequate transportation, and the necessary resources and energy to meet these needs.

The second aspect of restructuring that must take place is to restructure the form of production of goods and services in Canada. By employing people in producing these goods and services at decent wage levels, the strategy will provide incomes to purchase such goods and services. The allocation of needed goods and services can help eliminate poverty in Canada over the longer run.

The implications for the economic structure of Canada through changing the nature of demand and its relationship to supply are enormous. The supply of housing, food, public transportation, cultural and recreational facilities will entail a gradual shift away from an economy dominated by the extraction and export of resources, and import of manufactured and intermediate goods.

Manufacturing and general industrial development will assume a larger role in the Canadian economy. Initially oriented to meeting Canadian needs, those new industries which are highly innovative and dynamic will be able to compete in world markets and generate employment through exports.

Agriculture, as a dominant sector in the Canadian economy, will continue to be an important sector. But restructuring of the economy can take advantage of related domestic opportunities. Rather than import the 40,000 to 50,000 tractors needed by Canadian farmers, thereby leading the world in imports of agricultural machinery, industry car augment its capacity to produce such machinery in Canada.

Innovation into new methods of dryland farming and more energy-efficient methods of growing crops in Canada may demand quite different agricultural implements. Canadian industry can and should be a world leader in the development and production of such machinery.

To achieve this dynamic, efficient industrial sector will require careful use of all instruments available to government and the private sector. Investment priorities must be established, research and development expenditures planned and deliberately allocated. Educational and training programs must be reoriented to relate to jobs that can be created. Where the private sector fails to produce sufficient housing of a type to meet people's needs, a government corporation would build the required housing. Where the structure of the building material supply industry, threatens to curtail the housing program through exhorbitant prices or poor quality, bulk purchasing through long-term contracts would be arranged. Where new opportunities were not taken up by the private sector, particularly in inter-connected industries which may be crucial in making other opportunities available, the public sector will act.

It is especially critical to plan at this time in Canada. The Canadian economy is faced with enormous investment commitments over the next 10 to 15 years. We need to rank investment priorities according to a specific set of social and economic goals. Failing to do this will heighten economic tensions. It may also cut off development options available now, but not forever.

Some of the specific estimates of investment costs are staggering. For instance, it is expected that between $70 billion and $170 billion will be required to develop supplies of electricity over the next 15 years. An additional $80 billion to $140 billion is estimated to be required to generate other forms of energy over the next 10 years.

Such demands on the Canadian economy will increase the proportion of investment funds allocated to utilities and resource extraction. The relatively low level of jobs generated by such investment, particularly of a longer-term nature, will add to Canada's unemployment problem. Financial resources in Canada to finance such costs will be strained, foreign borrowing will continue to increase, and interest rates will be pushed up, making Canadian investment in other sectors even more difficult.

Canadian manufactured goods will be less competitive abroad as the value of the Canadian dollar is kept artificially high. Investment in certain essential goods, such as housing, will also be difficult.

Much of this investment is predicated on the status quo, on growth rates in energy consumption that can be altered if housing was explicitly planned to be better insulated, if public transit received more emphasis, if energy efficient technologies were developed.

Such alternatives may in fact prove much cheaper in the longer run. In the short run, the status quo cannot be accepted. The status quo in the energy sector may be good for Imperial Oil; it is not good for Canadians.

These are simply overviews of some of the structural blocks in today's economy. They exist in most other sectors. This is why we believe in planning.

III: NDP NATIONAL PRIORITIES FOR THE EIGHTIES:

A. The Objectives of Planning

The New Democratic Party has expressed its objectives as a movement in many resolutions adopted at conventions, in many parliamentary positions taken by the federal caucus, and in the bodies of legislation passed by NDP governments in three provinces. These broad objectives have been what the seven national priorities papers have sought to translate into detailed goals and policy instruments in each individual context.

These broad planning objectives can be summarized as follows:

1) Full Employment: In its founding program the NDP stressed full employment as its key priority; now with a million out of work in Canada this priority is even more obvious. The NDP rejects the myth that the private sector will automatically provide full employment. We insist that the government must take responsibility for this goal, through economic planning.

   Some 3% of the work force may be jobless while they are shifting occupations, but unemployment rates above that level are simply unacceptable.

   Liberal and Conservative governments have excused their unemployment by providing U.I.C. payments to the jobless. But we believe people want work for more than the income it provides. And we insist that unemployment insurance is no answer to unemployment. Work is the answer to unemployment; and the first priority of planning should be the provision of enough work, in all regions, to employ all Canadians.

2) Provision of Basic Social Needs: The NDP has always stressed that as a society we must give top priority to the adequate provision of basic necessities to all, before permitting resources to be allocated to luxuries and other non-essential production in Canada. Some of these basic necessities are "public goods", that cannot be sold through a market system - like the integrity of existing communities and a clean, safe environment; some are items to which we believe everyone deserves equal access regardless of income - such as health care and education. Some of these basic necessities are items we believe everyone must have an adequate share of in a humane community - like food, decent housing and energy.

   NDP planning will stress production and distribution of these basic necessities, so that all Canadians have the material basis for a satisfying life. If these priorities are not stressed in a community, then the lives of many (especially children) will be distorted and narrowed by malnutrition, disease, poor housing, cold and community disruption. And that distortion of many lives will undercut the feelings of community of the whole society.

3) Greater Regional Equality: Another fundamental objective of the NDP has been the reduction and elimination of gross regional inequalities in Canada. The economic discontent of Quebec dramatizes the need to achieve this objective; but the disadvantaged economies of Newfoundland, the Maritimes, the prairies, and the north all bear witness to the importance of this goal.

4) Greater Social Equality: Ultimately, of course, fundamental social equality is the underlying objective of all these goals. The NDP has stressed again and again that we want all Canadians to share fully in what this country produces. Equality of opportunity is part of this objective; but the NDP goes beyond this, aiming at equality of essential condition for Canadians - so that everyone has an equal chance to take up the rich variety of individual options an advanced industrial society can offer.

5) Efficiency in Public Sector Activity: Because Canada has such critical social needs in the next decade, we cannot afford waste and inefficiency in government. Canada must depend on state activity even more in the future than it has in the past; but people will be rightly reluctant to accept such activity if they see government as uncontrolled and wasteful. Because the NDP believes in government, one of our major objectives must be eliminating such waste and enforcing public sector efficiency.

6) Efficiency in Private Sector Activity: There is as much or more waste and inefficiency in the private sector, though it is not as open to public scrutiny. This waste is evident, for instance, in the proliferation of many different product variations for marketing reasons; while inefficiency is bred by the lack of competition among many of Canada's large corporations, such as the three electrical companies convicted of common price-fixing last year. The NDP's goal is to tackle such private sector inefficiency with as much vigour as we battle waste. We want an efficient, thriving private sector.

7) Greater Generational Equity: Many people deeply fear getting old in this society, partly for objective reasons that are inescapable, but partly for economic and social reasons that deserve to be remedied. Enforced early retirement, for instance, is

a cruel imposition if someone is still capable and eager to work. The low incomes that pension plans provide sharply reduce living standards for the old. Rights of the old to health care or housing often appear limited, too.

Yet all of us will be old some day - and demographic trends mean that a much larger proportion of us will be old in the next few decades than in the post-war baby-boom period. Generational redistribution to provide more stable living standards into old age is thus an important objective. So is the right to work regardless of age. It is clear the NDP's long-time fight for adequate old-age pensions needs to be more broadly re-interpreted as a commitment to generational equity as a planning objective.

8) <u>A Better Developed Economy</u>: Canada has the resource base, the manpower skills and the technological ingenuity to support a dynamic, growing economy - to give us all more than the basic social necessities in the future, and to allow us to help with international development problems. But the current structure of this economy, as discussed in section II above, does not provide us with this dynamism.

So one of the central objectives of planning must be to restructure this economy. So that it is more inter-connected. So that gains in one industry will be easily transferred to others. So that it is more technologically advanced, meaning we will have better jobs available for people and a more competitive role in international trade, making it more stable in its operations, meaning the disruptive swings of business cycles or international price changes don't hit us so hard. Cutting its extravagant use of energy and mineral resources, meaning we won't hit dangerous resource constraints in future decades.

Such economic development and improvement is essential to achieve our other planning objectives.

B. <u>Participation and Planning</u>

Those are the basic objectives which a New Democratic government would seek in its planning efforts. But planning has another fundamental purpose: that is, it is the means by which the Canadian people can take rational control over their own future. By participating through their communities Canadians can debate the choices to be made, and themselves decide the options to pick.

In that sense, planning redistributes power in a society. Choices for the future are now being made for us all - by rich corporations and businessmen in Toronto and Montreal, by unchallenged and faceless bureaucrats in Ottawa, and by powerful external forces in New York or Washington. Only through a public planning process can Canadians reverse this reality, find out what our future options really are, and shape these key choices democratically.

Thus planning is as much an end in itself as a means to achieve the objectives suggested above. Because planning allows for participation.

But that is only true if a participation commitment is stressed in the planning process. The goal should be to draw communities and groups deeply into the national planning debates and decisions, and also to penetrate beyond the organized interested groups and probe the perspectives of the less articulate in Canada.

To assure effective participation, much detailed planning administration should be decentralized. Where housing is to be built in a city, for instance, which rail beds are to be improved in a region, and what jobs programs are most appropriate to an area. Cities, regions and areas should help make these planning decisions within some broad national policy thrust. That way participation can mean more to people.

This democratization at the local level can extend even to much planning at the workplace level - on safety regulations and precautions in a given factory, for instance.

Participation, however, rests on openness of information. It is blocked in our present context, therefore, by the secrecy of our government, and the monopolizing of information by large corporations. So the first function of the planning process will be to open up government, and establish a free flow of social and economic information to the public; at the same time, large corporations will be required to be much more forthcoming and detailed in their public reporting.

Planners, in an NDP conception of economic planning, thus are not superior deities passing down intricate plans to the people - but communicators and facilitators, whose major role is to make it possible for all Canadians to take part in decisions on our future. Planners will obviously have some influence on how options are set before the public. But ultimate decisions will be made by those directly responsible to the electorate.

What of the politicians? The NDP sees planning as returning politics to its original purpose, of shaping the community future. So our political institutions - Parliament and the cabinet - must become the ultimate decision-making forums within which final choices are made.

In Norway, for instance, the four-year "plan" which emerges from extensive information-sharing and public participation, and is adopted by the government, is published shortly before the election date and becomes part of the government's campaign platform. So that the public has an ultimate approval/disapproval right, as well as a major role in plan preparation.

This kind of planning responsibility on the part of the politicians could revitalize both Parliament and general political life in this country.

C. Some Alternative Priorities:

But is it really possible to re-order priorities in Canada? Are there alternatives to the development patterns that are presently unfolding? Isn't there an inevitability about the course of economic decision-making in the next decade?

Certainly there are powerful pressures toward continuance of present paths; the inertia enforced by past choices is a difficult block to overcome. And a federal NDP government would have no illusions about rapidly reforming the inadequacies of years of unplanned distortions and inequities in our society.

But there are alternatives that can be shaped. There are policies that can start to achieve the social objectives set out above. These alternatives are illustrated in the seven discussion studies of our National Priorities. These studies indicate how planned change can reshape the future before us.

Take energy, for instance. Given our present wastefulness, our poor transportation patterns, and our reliance on the oil companies for energy development, there does seem little choice for Canadians between freezing in the dark or pushing a pipeline through to the Arctic in the face of northern native people's opposition.

As the petroleum, transport and housing sector studies show, however, sensible economic planning provides us with another, more effective alternative. We can reshape our transportation system with the money that would otherwise go into a pipeline - so we have more energy-efficient urban transit and fast, inter-city trains to rely on for passenger movement. We can subsidize house insulation so we cut heating demands while upgrading housing standards.

Taking this alternative would involve a comprehensive set of policy changes, which our present economic and political system is poorly organized to make. But such a choice would respect the planning participation of northern native people, as expressed to Justice Berger; and it would avoid the waste of a highly expensive, barely profitable pipeline investment in the Mackenzie Valley during the next decade. With the resources freed by not having to build a pipeline many of our social objectives could be financed; and considerably more employment could be generated through modernized manufacturing.

Let us look at regional disparities. Given the present momentum of Toronto's growth, the poor transportation infrastructure of many no-growth regions, and our reliance on large private corporations to shape future investment choices, there does seem little choice for Canadians between doing nothing about disparities or pushing wasteful DREE grants and other charity schemes at poorer regions.

But as the discussion studies indicate, more comprehensive planning does open a better alternative. Take the transportation investment that would otherwise go into huge airport white elephants, like Mirabel and Pickering, and improve freight facilities for manufacturing in areas like the Maritimes, the Eastern townships and the prairies. Increase processing and manufacturing from the resources extracted in many poorer regions, as with gypsum from Nova Scotia, asbestos from Quebec, nickel in northern Ontario and northern Manitoba and copper in British Columbia. Give our communities more of a role in the investment planning of our large corporations, so that we can effectively push new economic opportunities into disadvantaged parts of Canada.

Take the national unemployment problem, too, as another example. The employment discussion study shows the many creative ways in which short-term emergency job expansion can be achieved. But that study stresses the need for more far-reaching, long-term solutions to the present work crisis - not least because of the large number of young people who face tough job-hunting in the next decade.

The other National Priority papers which have been circulated in turn provide some of these long-term alternatives. The resources paper illustrates how few jobs mineral mining expansion provides, and shows how we can re-orient our policies to encourage metal manufacturing expansion - which will provide far more jobs. That paper and the taxation paper also show the massive surpluses which the public should be able to use as tax revenue from the large foreign corporations here. And the housing paper explains how that increased corporate tax revenue could finance an extra 60,000 new housing units in Canada each year. That extra construction would not just allow us to meet a major Canadian social priority more adequately; it would provide thousands of new jobs to Canadians.

The housing study stresses, too, the need to focus this housing expansion in poorer regions, where infrastructure has not developed well. So regional disparities can be tackled in this long-run programme, too. And not just by this direct job expansion. As important, the better housing then available in poorer areas, at quite low cost relative to places like Toronto, will help encourage businesses to locate new investments in a decentralized way.

The same sorts of integrated points can be drawn from these studies in analyzing how to eliminate poverty in Canada. The best way to deal with low incomes is not to promote more welfare payments. Rather, sensible planning can begin to get at the roots of poverty.

Full employment is, of course, the first priority in promoting greater equality. But the food and agriculture paper also suggests one way in which fair access to basic necessities can be guaranteed: by subsidies to quality foods like milk and eggs and vegetables that loom large in family budgets, offset by high taxes on the over-processed junk foods many food corporations promote. Similarly, the transportation paper stresses the need to support heavily the public transportation modes on which poorer people depend. In housing, too, a massive re-orientation of emphasis is necessary, away from subsidies to the well-off for suburban home purchase, to support the upgrading of existing housing in the poorer urban cores and construction of creative public housing communities for lower-income Canadians. The taxation paper stresses how an end to tax privileges and loop-holes would take the tax burden off poorer Canadians.

Comprehensive planning, then, can help us better meet all our social objectives - and explode the negative idea that Canadians must simply accept their future as inevitable. The ideas and instruments suggested in these background studies combine to provide an exciting overall alternative by which the humane and rational goals outlined above can, in fact, be achieved.

D: <u>Planning Instruments and Institutions</u>:

But how can these changes be accomplished? Is it really possible to design planning instruments that will allow participation and reform to be accomplished, in the directions suggested above? Can a national community really achieve the capacity to plan its future?

Again there is no easy answer to these questions. As democratic socialists we could not permit highly centralized bureaucratic planning. In any event, our broad, diverse economy and distinct regional goals would prevent it. And certainly it will never be possible for Canada to plan its future economic development precisely - because we are a small economy that is involved heavily in relations with a changing international economy.

But there still are a wide range of planning instruments - many of them tested in other advanced democracies - that could be used to accomplish the sorts of goals set out above. The Scandinavian countries, for instance, have well-developed planning institutions -

including medium and long-term planning branches in their governments, labour market planning policies, and wide public planning structures by which participation is assured.

The Belgians and the Dutch both prepare extensive five year plans, organize structural employment shifts through manpower policy planning, and emphasize extensive public participation in deciding plan options.

We know that none of these patterns is exactly suitable for planning in Canada. But the existence of such European experiences (and the success of those experiences in terms of the rapid progress of such economies in the last 15 years) does demonstrate clearly that planning can be done.

The main barrier to planning in Canada then, is not whether it is feasible. The main barrier is political will. Liberal and Conservative governments in this country have not had the political will to democratize economic life, and give all Canadians the chance to debate and influence future government and corporate economic decisions.

The New Democratic Party <u>does</u> have the political will to make that change.

The first step in translating that will into the capacity to plan will be straightforward. A New Democratic government would have to make the Canadian cabinet a <u>planning</u> cabinet, with ministers co-ordinating their intentions together, and working out a joint five-year plan for their investment and policy objectives. Planning cannot be divorced from the political system, in some sort of independent planning bureau, or else planning will not be taken seriously; it would be symbolic, not real.

The Canadian political system, as suggested in part B above, can then become the institution through which public participation in planning will be established and enforced. Again it needs to be stressed: if the parliamentary system is not made the focus of planning participation - if alternate parallel communication lines are established and used - then planning will not be the serious political exercise it must be to work.

To say that the cabinet and parliament will be the focus of planning is not enough, however. Significant efforts must be made to give these bodies the capacity to plan; most important, these bodies must be given the assistance of extensive information and technical expertise. Instead of devoting heavy resources to public relations assistance, for instance, cabinet ministers will have to see that an effective, able cabinet secretariat is established to assist in the sectoral co-ordination which cabinet will have to undertake; a well-staffed economic forecasting division will have to emerge, providing extensive public information to parliament and the people; collection and analysis of corporate information (as the AIB is presently doing) will have to be maintained and extended.

Within parliament, in the same way, specialist backbench committees will have to be improved and expanded, staffed with skilled technical expertise and the resources to be able to oversee plan implementation and preparation in the particular sectors in which they speciali

The point made in part B above deserves underlining: that much of the detailed plan administration should be decentralized to individual communities, so that local participation can make real decisions affecting how social needs are more precisely met in the local context.

But how is this public planning process to be meshed with the decision-making of the private business sector?

First, an NDP government would want to escape from the sterile government-business confrontations which now characterize economic life in Canada. We anticipate that the wide prior participation in the planning process of business groups, along with the rest of the community, would mean that public and corporate planning would reach some medium-term consensus in working out national priorities for a given period.

Second, an NDP government would recognize that there are a wide variety of means by which private business may be influenced to follow community priorities. The NDP is not wedded to any particular means among these - such as nationalization. As a social democratic party, the NDP would use those instruments which appear most viable in a given situation to achieve planning objectives efficiently.

In particular cases, this will suggest reliance on the tax system, as an indirect means by which to reshape business activity. For instance, the resource background study suggests export taxes on raw mineral exports in order to encourage mining multinationals to process and manufacture from these minerals in Canada. In food and agriculture, the background study suggests special taxes on non-nutritious food, to discourage its consumption.

In other cases, policy instruments already exist by which governments exercise some authority within a private-sector industry, and those instruments can simply be used to reshape policies when this is decided. In housing, for instance, CMHC - the Central Mortgage and Housing Corporation - is a viable means by which to achieve national housing objectives, as the discussion study of this sector shows. In energy, the National Energy Board has the potential for effectiveness, too, though the discussion study of this sector illustrates the changes necessary in NEB to achieve that potential. In transportation, the existence of the Canadian Transport Commission and public ownership of the major air and rail corporations in Canada mean that instruments for effecting change already are there to use.

Unlike other parties, however, the NDP has no philosophic objection to using public ownership when it represents the most efficient way to achieve planning objectives. This country has a long tradition of using state enterprise - as Ontario and Quebec Hydro, The Canada Development Corporation and the Canadian Broadcasting Corporation show - and the NDP respects that tradition. The NDP is suspicious of billion-dollar tax give-aways to persuade certain companies to do something, with few guarantees that they will meet community goals, and no sanctions if they do not.

Thus there are cases where new policy instruments should be established to permit planning through the use of public ownership. In the petroleum sector, for instance, it is absolutely clear that we need to have a large, Canadian-controlled oil corporation to guarantee that Canada has accurate information on energy developments and has the capacity to accelerate domestic exploration; the discussion study on that sector therefore concludes it is senseless not to take over a large multinational, like Imperial Oil, to achieve this requirement.

Another traditional instrument to use is trade policy. Tariffs can be shaped to encourage particular priorities, and discourage others. Export assistance can help promote higher-technology, manufacturing and large-scale trade agreements, like the Auto Pact, can be used to help rationalize whole industries. In fact, full-scale renegotiation of that Auto Pact would be an NDP priority to increase employment.

A further internal instrument lies in the public sector's own purchase policies. The promotion of new innovations and the growth of new dynamic industries can be spurred by governments' own guarantees to purchase the relevant out-put, or by decisions of state enterprises to do so. Such purchases can be well planned in advance.

Beyond these traditional instruments there probably needs to be certain new institutions established to co-ordinate public and private decisions. These institutions are required on both the capital accumulation and the capital expenditure sides of economic activity.

On the capital accumulation side, we believe that more of the economic surplus generated each year for investment should come under public planning control, in the same way that savings through the Canada Pension Plan are now invested by the government (or in the way that car insurance premiums in a province like Manitoba are available for publicly-planned investment).

One example of how this extension could be achieved is the Swedish investment fund system: during periods of inflationary pressure, Swedish corporations are required to invest a portion of their profits in this government fund; later, when capital projects would be less inflationary, corporations may draw from the fund - for establishment of investment projects of the sort and in the location which public planning procedures have approved. Similar funds have been established in other countries to be used for investmen shifts into poorer regions.

Such a Canadian Investment Fund system, however, could well tap more than private industry profits. The large (and profitable) banking and insurance companies in this country could be requested to deposit a portion of the funds they accumulate in this fund, so it would be channelled to what the country has democratically decided are social priorities; similarly, portions of many large company pension fund savings could be deposited with the system. Depositors and pension contributors would still receive the interest return they expected, but public authority over the allocation of a greater percentage of Canadian saving would have been established. This seems a critical step toward effective public planning.

On the capital investment side, there is also a strong case for new institutional intervention - not in the affairs of the thousands of small and medium investors in Canada - but in the affairs of the 50-75 largest corporations in this country. The investment decisions of those powerful firms have a profound effect on regional development patterns in Canada, and on the efficiency and competitiveness of manufacturing and resource enterprises that are established. A serious planning effort must give the public some direct influence on these investments - especially since such huge firms are usually insulated from the marketplace competition which might otherwise make them conform better to people's priorities. This investment planning influence is especially important to obtain since many of these firms are foreign-owned and controlled from headquarters abroad. Their investment decisions may serve head office, not Canada.

How could such public influence be obtained? We could very easily use a new legal requirement enforced on this handful of giant companies. Each would be required to work out with government an investment planning agreement for a set period of years, covering where and when they planned major investment projects. As incentives to such agreement, governments have considerable subsidies they now provide to such firms; they would also have potential finance to contribute from the Canadian Investment Fund. Using these incentives, government could see to it that regional and employment objectives were sought by the largest companies in the country as well as by government.

It should be stressed again, though, that public participation remains critical to this whole process - furthered in the case of these large-scale corporate planning agreements through the participation of the companies' employee representatives in this negotiation.

There are some of the means by which planning could be done in Canada. But as we stressed above, the key requirement is the political will to move toward that rational democratization of our economic life. It is this political will which the New Democratic Party is demonstrating by its present efforts to discuss in detail the national priorities for which it would plan.

IV: CONCLUSION:

This overview has attempted to fill six functions:

(1) to provide background on the National Priorities effort;

(2) to outline some of the fundamental problems in the Canadian economy;

(3) to suggest why economic planning is the essential response to those problems;

(4) to sketch the objectives which NDP planning in Canada would seek;

(5) to illustrate how the National Priorities studies thus far completed could together contribute to reaching those objectives;

(6) to suggest the means by which planning could be implemented in Canada.

At the end, however, just as at the beginning, we must stress the tentative nature of what has been done as yet. The NDP's National Priorities effort has only completed its first stage; and the second stage of full party debate and decision-making is more important than what has so far taken place.

Moreover, it should be made clear that this effort has not had the resources devoted to it required to really form plans in a comprehensive sense for Canada's future. Only the community as a whole, working through its government can organize such real-life planning. Our party effort must inevitably be tentative at this point.

But why then make the effort? Partly to contribute new ideas, and to spread some of the information essential for planning. And partly for a much more important reason:

* to demonstrate that the NDP does have the political will to move us toward a more rational, democratic economy in Canada; and
* to demonstrate that the NDP does have confidence in the capacity of the Canadian community to overcome together the crisis we confront.

Full Employment

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"FULL EMPLOYMENT IS BOTH NECESSARY AND POSSIBLE"

A NATIONAL EMPLOYMENT STRATEGY

I. INTRODUCTION

A. An NDP Commitment

The New Democratic Party is committed to achieving full employment in Canada.

- We want to end the frustration, humiliation and deprivation suffered by the unemployed.
- We want to end the alienation, community tension, family disintegration and social conflict which accompanies long-term unemployment.
- We want to end the loss in economic output and reduce to a minimum the level of unemployment insurance benefits.

We can do it. Full employment is possible.

B. Liberal Failure

In 1969, the Liberal government in Ottawa explicitly sought to "fight" inflation by creating further unemployment. Their success in fighting inflation, then as now, was an illusion. But they did effectively create higher unemployment. Thereby they encouraged the growth of social problems, while reducing the potential wealth of the country.

Since then, unemployment has continued at unacceptably high levels with the result that the economy has lost out on many billions of dollars of production - goods and services which should have and could have been made available to all Canadians. For a brief period in the early 1970's, under pressure from the New Democratic Party, organized labour and the people of Canada, even Mr. Trudeau found the unemployment rate unacceptably high. In part, through government policies and programs, the unemployment rate was reduced from 6.4% in 1971 to 5.4% in 1974.

But then the "resolve" to fight unemployment evaporated. Inflation was again to be fought on the backs of Canadian workers, this time through wage and price controls. From the beginning, the Federal New Democratic Party has recognized the controls program as a sham. Prices cannot be controlled without control of profits, and profits cannot be controlled unless investment is controlled. If firms can withhold or redirect their investments at will, they can force the abandonment of any effective price controls. Labour cannot legally strike against wage roll-backs, but investment can be withheld - capital can strike against profit controls.

Not only have controls been inequitable and unjust, they have also been ineffective. And the Liberal Cabinet knows this. In a desperate attempt to make controls appear successful, the Liberals have encouraged increasing unemployment in the hope that this might reduce the inflation rate. Now that controls must go, they refuse any meaningful measures to relieve unemployment. Their unspoken decontrols program is to create sufficient unemployment to coerce working people into accepting minimal wage increases regardless of productivity, company profits, or equity consideration. The recent federal budget is dramatic proof that deliberate unemployment is a conscious liberal policy. It is truly astonishing!

Unemployment has now been running at more than 7% for over two full years. The average rate in 1977 is expected to be at least 7.5%. Over 930,000 Canadians are officially unemployment. Many more have given up the unrealistic search for a job. Months of effort have taught them that no jobs are available in their area for them. They are no longer counted as unemployment. If they were to be counted, more than one and a quarter million Canadians are unemployed. This is a much more realistic estimate of the number of people who would work if work was available to them. It is a real measure of the wasted resources and lost opportunity forced on Canada by the current Liberal Government.

Increasingly, more and more of the burden of Liberal economic policies is falling on Canadian women as they are being forced out of the labour market. From August, 1976, to December, 1976, the seasonally adjusted labour force participation rate for women has dropped 1.6 percentage points. This is a 3.5% drop in the female participation rate during a 4 month period. On a seasonally adjusted basis, 117,000 less women were employed in December, 1976 than 4 months earlier; their unemployment rate had risen to 9.1%, again seasonally adjusted.

But perhaps the greatest hardship is falling on young Canadians. Forty-six percent of those unemployed in February, 1976, were under 25 years old. The unemployed rate for this group was 16.1% (unadjusted): it averaged 12.8% for all of 1975. It is a most sad and unnecessary circumstance, when 429,000 willing and able young Canadians are not allowed to participate in the economic life of this country. We all lose because they are not able to contribute through employment to our society and we will all have to pay for the social programs needed to

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deal with the inevitable social problems and social disintegration which accompanies such unemployment.

The Liberal government is responsible for the current level of unemployment in Canada. It could eliminate the unemployment. Instead it offers the Canadian people token programs - Canada Works (L.I.P.) and Young Canada Works (OFY) - programs which are all too often manipulated for partisan ends. In no way can these programs be seen as part of a serious national campaign against unemployment. The allocations to these programs reflect this. They bear no consistent relation to national unemployment rates: rather they reflect the whims of the Liberal Cabinet. In fact, these programs had so little appeal, that the Government had to change their names to give the appearance of doing something new. The program names chosen - Canada Works and Young Canada Works - are most ironic. Indeed <u>Canadians do want to work</u>. It is the Liberal Government which makes this impossible. It is the Liberal Government which does <u>not</u> work!

C. <u>A New Ruse</u>

During the 1970's, a new ruse is being developed. Unwilling to take the necessary action to bring the unemployment rate down, the Liberals have been trying to persuade us that a 6 or 7 percent unemployment rate is "natural" or at least acceptable. If the public doesn't buy that line, they argue that it is only the unemployment rate for men aged 24 to 44 that really matters. In any case, unemployment benefits make full employment unnecessary, the Liberals say - conveniently forgetting that it is costing over 2 billion dollars, almost all out of working people's pockets.

There is no iron law that decrees you can't reduce employment to 3%. Other industrialized countries have matched that record - or bettered it. Over the period 1962-73, France, Japan, Britain, Sweden and Germany had an average unemployment rate of 1.8 percent. Canada's average for the same period was 5.1 per cent.

The level of unemployment which we have experienced in this country for the last several years is neither "natural" nor acceptable. Too many people are still suffering hardship due to unemployment. Too many social problems are still being generated through unemployment. And it is costing us all too much in terms of the goods and services which we as a nation could produce and share if only we fully employed our people.

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Reducing the number of unemployed by 350,000 would add roughly $6.5 billion to the GNP - the equivalent of about 5 Montreal Olympics.

It is of course unacceptable primarily because the vast majority of Canadians want to work. They wish through productive labour to contribute to their families and communities. And if people want to work, the New Democratic Party believes they have a right to work. We can - and we must - provide individually meaningful and socially productive jobs for all Canadians willing and able to work.

II. POLICY DIMENSIONS

Stated this way, our commitment to full employment takes on significant additional dimensions. The quality of jobs and the Canadian participation of the "hidden" unemployed and "disadvantaged" become important issues. The jobs we create should be both meaningful and satisfying to the individuals involved and socially useful to the community. If this is not the case we will not be achieving our objective. Further, it will be necessary not only to create enough jobs for the unemployed as reported by Statistics Canada, but also for the additional thousands of people who will be drawn into the labour force by the availability of real options to participate in the economic life of the nation. Special programming will be required to ensure satisfying and socially useful employment opportunities for the disadvantaged.

A. The Employment Hierarchy

The issue of the quality of jobs relates not only to the job which must be created, it relates also to existing jobs. There is in Canada a broad range in the quality of jobs - what might be called an employment hierarchy. The upper end of the hierarchy - the primary labour market - is characterized by larger firms with market power, high productivity, high wages, stable employment and a high degree of labour organization. The lower end of the employment hierarchy - the secondary labour market - has almost the opposite characteristics - many smaller firms with insignificant market power, low productivity, low wages, unstable employment and little labour organization.

A person's wages and working conditions are determined more by the place of their job in the employment hierarchy than by his/her own efforts and training. Productivity in the sense of output per person, which is partly reflected in wages received, is primarily a product of the kind and quality of capital investment and market power of the employing firm. A person with the same skills and abilities, doing essentially the same job, can receive substantially different wages depending on whether he/she is employed in a primary or a secondary job.

The number of jobs in the primary labour market is not growing at all rapidly. The expansion in the economy is primarily in the service sector which is predominantly within the secondary labour market. With its characteristic of job stability, its rigorous and largely internal recruitment procedures and its lack of growth, there is little opportunity for entry into the primary labour market. Upward mobility within the Canadian labour market is limited by the nature and operation of the employment hierarchy.

As a result, persons employed in the secondary end of the employment hierarchy face uncertainty. With the instability of their jobs, they move from one low-paying, unattractive job to another. Between jobs they must rely on the state. They circulate between low-wage employment, welfare and training. Training, while it may improve their wage positions somewhat, rarely leads to primary employment; and sooner or later the unstable nature of secondary employment - layoffs, company failures, or employee frustration and alienation - leads back to welfare and/or further periods in training. Training has become a slightly better paying alternative to welfare, rather than an avenue to significant advancement in the labour market.

But even to the extent that training is effective in increasing individual productivity, earnings and mobility resulting in primary labour market employment, it accomplishes little on a national level. Without an increasing number of primary sector jobs, mobility of some individuals to better jobs will only result in the displacement of others. This is true of the entire employment hierarchy as well as the primary sector. If unemployed persons are placed in jobs, without an increase in the total number of jobs, others are displaced and become unemployed. In fact, with aggregate demand constant, if newly trained workers are indeed more productive, their employment could displace more than an equal number of workers resulting in increased unemployment. The point is that training simply cannot alter the structure of the employment hierarchy, nor the stock of jobs. Rather, institutional and structural changes are required in the economy if training is to become an effective

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instrument for better job mobility in an aggregate sense. Thus much of our current national investment in training is a waste of money.

B. The "Hidden" Unemployed and the "Disadvantaged"

The official unemployment statistics not only ignore the issues of underemployment and job quality, they also exclude many people who wish to work. The labour force survey includes or excludes people from the labour force based on their response to questions about their efforts to find work in the last four weeks. The survey does not ask people if they wish to work and/or would work if suitable employment was locally available.*

Thus, many people who have reasonably given up efforts to find a job based on their knowledge of local opportunities and experience, in job hunting are excluded from the official unemployment count. Some work in seasonal industries, some are in rural or remote communities where there are few if any employment opportunities, and many face barriers to employment which have led them to give up the search.

There are a number of indications that this group of uncounted and hidden unemployed often equals half the officially counted group, in times of high unemployment.

For instance, there are groups of unemployed people who are never included in Statistics Canada's survey - in particular Treaty Indians and those in remote locations. In addition, as high unemployment continues, the number of people officially included in the labour force decreases as more and more of them give up looking. This has happened recently among young adults - a group which has been experiencing "double-digit" unemployment for many months.

Many of the "hidden" unemployed and a few of the officially unemployed (those unemployed for extended periods) face disadvantages in terms of labour market participation. These disadvantages may be geographic, social, cultural, mental or physical. The important thing to note is that to some degree or another all such disadvantages must be defined in terms of both the individual and his/her environment.

This is most obvious with geographic disadvantage where the barrier to employment is the place of residence of the individual in

* In Sweden, data is collected and published on the number of latent unemployed. This is defined as persons who, while not belonging to the labour force, have stated that they would have applied for work if they had expected suitable opportunities in their locality of residence.

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relation to the availability of jobs. There is clearly an environmental component to this employment barrier - the local availability of jobs. There is also an individual component in terms of choice of residence and mobility options, although "freedom" to choose one's place of residence varies from person to person. Similarly, social and cultural disadvantages, whether a lack of vocational skills or an unfamiliarity with industrial regimen, cannot simply be defined as problems of the individual. The individual's social and cultural characteristics are unsuited to employment because of the nature of the jobs and the way production is organized. In other words, the social relations of production are a significant part of the employment problem. This is also true for persons with various physical and/or mental handicaps. In one way or another, to some degree, the physically and mentally handicapped can participate in the economic life of the nation if employment opportunities are modified to facilitate their participation.

The key to effective programming to assist "disadvantaged" people to fulfil their wish to participate in the labour market is to deal with both the individual and the employment environment. The burden of change must be spread out. The individual must not be expected to make all the adjustment necessary to "fit in" to main stream employment. The social and physical organization of production must also adjust to the needs of Canadians.

Both in terms of the quality of employment opportunities and the participation of the disadvantaged, it is necessary to begin to improve the labour market, to make it more responsive to the needs of the people. We must no longer shuffle aside our senior citizens, isolate the handicapped, nor "ghettoize" the disadvantaged. We must - and can - create opportunities for all the people of Canada to participate in our economic life.

III. LONG TERM SOLUTIONS

The objective of the New Democratic Party is to provide individually satisfying and socially productive employment for all Canadians. This involves creating not only enough jobs but also the right kind of jobs, and in the right locations. To achieve full employment it will be necessary to restructure the economy, improve the work environment, and provide supportive programming to ensure the participation of the disadvantaged. This cannot be accomplished overnight.

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Full employment, involving all that we have discussed above, can only be achieved in Canada as it has been elsewhere: namely, on a continuous basis through national economic planning. Such planning must ensure the necessary level of investment, in the appropriate industries, directed to the right locations and at the proper time. A national planning structure which incorporates industrial sector, community, provincial and national perspectives will have to be developed to ensure both participation and realism.

While recognizing that this task can only be undertaken by a national government with the resources available to it, the New Democratic Party has undertaken a first step to demonstrate what could be achieved through national economic planning. We have launched, within our Party a research and planning exercise designed to produce a set of national investment priorities. We hope to demonstrate how the nation would be better off by consciously setting its investment priorities and directing investment accordingly.

We will discuss the interaction of investment decisions in the various sectors; we will present alternatives and we will propose a redirection of investment funds which will better achieve our national priorities.

IV. SHORT AND INTERMEDIATE TERM MEASURES

As the Government of Canada, the New Democratic Party would move immediately to eliminate unemployment.* This can be accomplished through a comprehensive set of short and intermediate term measures designed to achieve full employment. Such programming, being of a short and intermediate term nature, inevitably will involve some difficulties. These will only be eliminated in the longer term when employment policy and programming are integrated with national economic planning so that people are employed in those activities which make greatest social and economic sense.

In the meantime, short and intermediate term steps can be taken which will put people to work in socially useful activities. Wherever possible these measures will be designed in such ways as to facilitate the transition to national economic planning.

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* Above the 3% statistical minimum which represents people moving between jobs.

V. LEGISLATIVE COMMITMENT

A firm, long-lasting, trustworthy commitment by the Government of Canada to the achievement of full employment is a prerequisite to any solution. The ephemeral commitment of the Liberal government is clearly not sufficient.

We, in the New Democratic Party, believe that the national commitment to full employment should be made in legislation. This should be clear and unequivocal. It should be given concrete form by setting out in the legislation a specific timetable for the achievement of full employment. We would propose that unemployment be reduced to five percent within two years, and to three percent within four years. This is achievable through concerted efforts. Even more specifically, the legislation should break the timetable and targets down into regions, so that all citizens can measure the adequacy of the measures introduced in their areas to achieve the objective.

Not only would we commit ourselves in legislation to a timetable and targets, but minimum acceptable expenditures would be annually established on job creation and direct economic development. The proposed expenditures would relate to current unemployment and short term unemployment projections in order to build in some lead time. In this way, we would not only put our commitment to full employment in writing (legislation) which the Liberals and Conservatives will not do, we will also guarantee that necessary funds are committed to the achievement of the objective.

VI. PROGRAMMING OVERVIEW

How would the New Democratic Party spend these monies in order to achieve full employment within the timetable we have suggested?

We would undertake four categories of programming. These four categories recognize the need for both the public and private sectors to be mobilized to end unemployment, and the need to program separately for the "ready-to-employ" and the employment disadvantaged. The programming categories are defined by the following matrix:

	Public Sector Employment	Private Sector Employment
Ready-to-Employ	x	x
Employment Disadvantaged	x	x

The specific programmatic proposals are presented in the following sections.

VII. PUBLIC SECTOR PROGRAMMING

It is by now a well recognized fact that governments - federal, provincial and local - form a very significant part of the Canadian economy. Indeed, it is currently popular to be critical of "big government". This criticism is not without cause in the sense that governments have often not served the interests of the Canadian people who pay for their activities. In fact, some of the activities of government represent the use of state power to protect and support specific vested interests.

But such criticisms are not really of big government as such. Rather they are criticisms of insensitive, mismanaged and misdirected government activities. By properly managing the public sector in Canada, it is possible to move substantially toward the achievement of public goals such as full employment. The public sector must provide the leadership and example required for the achievement of such objectives.

A. For the Job-Ready

Programming for the job-ready involves primarily the creation of appropriate jobs in appropriate locations. Where the jobs created vary from the past experience and training of the labour force some short term adjustment services may also be required.

1. Capital Projects

Much of government activity at all levels, involves the construction of various capital projects - sewer and water systems, roads, sidewalks, street lighting, public transit systems, hydro and telephone networks, schools, hospitals, parks, recreation facilities, office buildings, etc. The greatest volume of such projects tends to occur during periods of economic boom when expectations and revenues are rising. The coincidence of public demand and the financial means results in project approvals at the same time that private sector construction activity is at a peak. This creates inflationary pressure.

It is important to schedule public capital projects on a counter-cyclical basis in order to avoid inflationary pressures in boom times and maintain employment during periods of excess capacity. By putting unemployed construction workers to work, and by purchasing building materials in times of excess productive capacity, major public improvements can be accomplished for minimal economic costs, in the sense that the human and capital resources utilized for the projects had no immediately alternative uses. The volume of public goods is increased without any diversion of resources from other sectors.

The current time is a period of unemployed construction manpower and excess capacity in the building materials industry. In September, there were 61,000 people unemployed in the construction industry which has been experiencing the highest unemployment rate of all industrial sectors. It is a time when governments generally - with some variation depending on local circumstances - should be initiating capital works projects. Instead, we find government "exercising restraint", and cutting back on expenditures, including capital projects. In terms of employment policy such actions are perverse. Nor does the inflation argument support such restraint. Neither the demand for labour, nor the demand for building materials would create any inflationary pressures. But the federal Liberal government seems incapable of understanding this. Instead they allow the opportunity to increase the stock of public goods to go by while manpower and productive capacity are wasted in idleness.

As a result of cutbacks and constraints most governments have several capital projects which are fully planned and in abeyance. We would move such federal projects into immediate construction. And we would develop cost sharing schemes to assist provincial and local government in areas of high construction trades unemployment to implement their projects. A good volume of work could still be initiated and carried out over this winter.

The regeneration of the core areas of some of our major cities, the development of rural facilities to ensure equal opportunities and real choice to our rural population, the up-grading of basic facilities in Canada's often neglected remote northern communities, the expansion and improvement of our national park facilities, the extension of transportation and communications in the mid-north, and the development of inter and intra urban transportation systems are but a few of the more neglected areas of public capital works where a well planned series of projects over time could substantially improve the quality of life in Canada and facilitate a more egalitarian development pattern.

Some projects are ready to go now, as has already been stated. To ensure the future supply of fully planned projects ready to be started on short notice we would initiate a program to encourage the preparation by all levels of government of a shelf of capital projects. The professionals required for such planning - architects, engineers, environment planners, etc. - would be hired during periods of slack demand for these services.

It is feasible, both immediately and on a continuing basis, to improve substantially the national employment situation through the initiation and scheduling of capital projects. The development of a decentralized system, with active local government participation is important for small scale local projects can be managed most sensitively in terms of the local employment market.

2. Housing Construction

All the arguments about capital projects also apply to housing. Although regarded as a social right by the New Democratic Party housing can also be considered as an example of capital projects. Housing construction during the remainder of this decade can be initiated by the government to establish adequate housing as a social right and simultaneously assist in meeting employment objectives with only limited actual cost to the Treasury.

Housing construction during the next decade would serve to occupy the slack in the construction industry. By increasing the housing supply without creating manpower or material bottlenecks, the actual impact of a housing construction program can be anti-inflationary. The economic costs of the resulting units are low in that the labour and productive capacity would otherwise have been idle.

The federal housing construction employment program should work through self-help, non-profit housing groups, housing co-operatives, provincial housing corporations and its own decentralized construction operations.

In addition to the housing construction program, we would introduce a program to utilize available labour to service publicly banked land. In some cases it might be desirable to utilize labour intensive techniques rather than the usual capital intensive methods. This might be a useful extension to the "sweat-equity" housing programs which have proved to be successful in Nova Scotia and Manitoba in bringing down housing costs. By developing a stock of serviced public land, it becomes easier to schedule the construction of houses. It also makes it possible to put downward pressure on serviced lot prices and thereby influence general housing prices.

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3. <u>Repairs and Renovations</u>

The existing stock of public capital goods must be maintained in good condition. Too often in the past,such maintenance has been the victim of budget cuts and constraints. As a result many of our public facilities have deteriorated to one degree or another. Repairs and renovations are required.

Such activities are labour intensive. As well, they can be organized quickly. Little lead time is required. Thus a major repair and renovation program is an ideal means of creating employment in the short-run.

The New Democratic Party, as part of its comprehensive effort to achieve full employment would launch a major national program of repairs and renovations to the social capital of the Canadian people. We would sponsor projects to be undertaken by all levels of government. Through such a program, improvements can be made in the quality of our schools, hospitals, recreation facilities, public buildings, roads, sidewalks, and public utilities.

In addition, we would sponsor the repair and renovation of private homes based on need. In 1971, Manitoba established such a program to provide grants to pensioners for basic home repairs. In 1975, the program was extended to provide forgiveable loans for low-income families. Since its inception the program has spent approximately $16 million on repairs to some 30,000 homes.

Direct assistance could be provided to veterans, senior citizens, and the physically and mentally handicapped. In this way, our basic social objective of assisting such groups to function in the community would also be advanced. Assistance could be given to other low income families.

4. <u>A National Heritage Program</u>

The physical heritage of Canada's early history, in both metropolitan centres and rural communities, is disappearing at an alarming rate. It is possible to slow this process and preserve part of our heritage while contributing to our full employment objective.

This can be accomplished within the framework of the National Heritage Program. Under such a program the federal government, through various arrangements with provincial and municipal governments and the private sector, would undertake to preserve improve and/or

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restore historically and architecturally significant buildings <u>and areas</u>. Our primary approach would not be to create historical museums but to restore buildings and areas while converting them to active use. It is fully possible to restore many significant buildings and re-establish the "character" of once vital areas, thereby preserving their contribution to Canada's heritage, while at the same time converting them for office, commercial, residential and community use.

The need for such action is as great in many of our rural communities as it is in our cities. If we do not act now - while we have the unemployed labour available - many of the opportunities will be missed for all time.

Some projects of this nature can be undertaken quickly based on the planning and preparations already available in many communities. Other projects will take longer in order to prepare plans, sort out land ownership questions and negotiate agreements. The employment impact of such a program in the intermediate terms could be quite significant.

5. <u>Parks and Environmental Projects</u>

During the last federal election campaign the Liberals announced the creation of several new National Parks. Portions of these parks need to be developed for various intensities of use by Canadians. Similarly, working through provincial governments, other Crown land, particularly that within reasonable access to Canada's urban centres, needs to be developed for recreational use.

Some of the required work has already been planned; some of it requires only the adaptation of past plans. This type of employment programming can be launched relatively quickly.

At the same time we need to act on several fronts to preserve and restore the environment. Much of this work lends itself to an employment creation program.

In many situations our ecological and environmental information systems are weak. Inventory and monitoring projects could improve these systems. Where environmental damage has already occurred, it is often possible to assist nature's restorative processes. The simplest examples are litter clean-up projects and the replacement of damaged or destroyed vegetation. Other, more sophisticated projects to restore damaged environments are possible.

Recycling is another area of environmental management which could be assisted through a related employment program which combines research and action. Such projects set an example and pilot ways and means for recycling our waste products, something we as a society will have to give increasing attention to in the years ahead.

6. Energy Conservation

Canada uses much more energy per capita than does Sweden, a country with similar climatic conditions. This is in large measure due to the fact that we have paid little attention to the economic use and conservation of energy in the past. The time has come for Canadians, as individuals and as a nation, to take serious action on this issue.

This objective can be assisted through employment programming. Projects could involve technical research into the more efficient use of energy resources. Other research would be of an applied nature, testing ways that existing technology can be used in our daily lives to create and/or conserve energy. Significant experimental applications of solar heating and wind power should be undertaken. Other projects could involve the development of local, small scale hydro generating facilities for small communities. Still other projects might be more immediate and widespread in their application, involving activities such as up-grading the insulation of existing public facilities and private residential dwellings.

7. Food

World food supplies are dangerously low. Decent quality, fresh food is not regularly available in many of Canada's isolated rural and northern communities. Generally, the nutritional value of the processed foods we eat every day is in question.

Again, employment programming can be of some assistance in addressing these problems. It should be noted, however, that in this case, as in all cases, our employment proposals are not meant, and simply are not able, to provide complete strategies for dealing with the non-employment problems. They are simply meant to show how employment programming can fit in and support more comprehensive solutions to these questions.

Through employment programming, food storage facilities can be built as part of Canada's contribution to a world food stabilization program. Tunnel and greenhouse gardening projects in isolated

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communities can be sponsored. Employment assistance would help such projects built and operational. It would see them through to the point where they could stand on their own. Public greenhouse projects in many communities, including inner city communities, could be undertaken through schools. The employment program could built the greenhouses and help with initial operation. Involvement in the gardens would give the students a much more direct interest in food quality and nutrition issues. Other community garden and/or animal husbandry projects could be supported on a basis of need. By tying project approvals to need, potential competition with farmers could be eliminated. At the same time, the local production - even within our cities - of fresh, quality produce would be encouraged.

8. Community Service Projects

We propose a national program of grants to community groups in the areas of high unemployment to carry out projects of service to local communities. The range of possible projects is quite great: organizing special local celebrations, arranging cultural events, developing local arts and crafts, community beautification campaigns, providing assistance in schools and hospitals, organizing sports events, providing services to senior citizens and/or the handicapped and so forth.

The problem with many community service projects is that they attempt to deal with long term needs through short term employment programs. When employment has picked up and the employment program is phased out the service must be cut. This is painful, and demands to continue the services result, usually to provincial authorities. This has been the provinces' greatest objection about L.I.P. and O.F.Y.

We will minimize this problem by developing our project criteria so as to favour community self-help projects where the employment support can be phased out over time. Projects to develop volunteer organizations, or which propose to build a local financial base will be given priority.

9. Community Groups Grants

The New Democratic Party believes in a decentralized, pluralistic society in the sense that we do not believe that the state can or should solve all problems. For such a society to operate fairly, there have to be resources available to the significant interest groups to make their case.

The current economic power of the interest groups in our society is not at all equal. We propose to make some small steps toward evening the odds by making employment grants to these interest groups representing the concerns of ordinary Canadians - farm organizations, labour unions, tenants groups, injured workers associations, women's organizations, welfare rights groups, senior citizen groups,etc.

The grants could be used by such organizations to employ persons to recruit new members, develop services, research issues, lobby and carry out the other functions of such organizations.

Through such grants we would not only be creating jobs, we would be assisting Canadians to develop their own organizations for ensuring that their interests are protected. Because such grants are part of an employment program, they would be for fixed periods only.

10. Purchasing Policy

As with public capital works, the size of modern government and the volume of purchasing that it does, makes its purchasing policy a significant potential tool for the achievement of employment objectives.

A New Democratic Party federal government would utilize purchasing policy as an instrument of economic development. We would use federal purchases to guarantee a base for local industry. Clear preference would be given to the purchase of Canadian goods and services. Further, we would add a regional dimension to our purchasing policy. Preference would be given to making purchases or establishing supply industries in areas of high unemployment.

With the range of programming proposals set out here, it is clearly possible for the public sector to assume its full role in ensuring that all job-ready Canadians are employed in socially useful activities. The challenge is to balance and phase the mix of these programs over time so as to avoid bottlenecks and provide employment for the full skill range of unemployed. It can be done. The New Democratic Party, as the Government of Canada, would see that it was done.

B. For the Disadvantaged

As indicated earlier, the key to effective programming to assist disadvantaged people to fulfil their wish to participate in the labour market is to deal with both the individual and the employment environment. The individual must receive supportive services and the

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employment environment must be designed or adjusted to better suit the needs of disadvantaged people.

The New Democratic Party, as the Government of Canada, would launch two major efforts to ensure that public sector and publicly sponsored employment opportunities are available to persons who face disadvantages in regular labour market participation.

1. Affirmative Action/New Careers

To ensure that the disadvantaged are fully represented in the public service, we would immediately launch a public service affirmative action program. The current participation of employment disadvantaged people - women, native people, the physically and mentally handicapped, and older workers - in all levels of the public service would be examined. To the extent that these groups are under-represented in the public service at each level in relation to their proportion in the Canadian population, clearly defined targets and timetables to achieve equal representation would be set. Specific recruitment, training and advancement programs would be developed to achieve the targets within the set timetable.

Much of the background work required for this type of effort, especially the analysis of the current representation of disadvantaged people in the public service, has already been done by various federal agencies. What is lacking is sufficient corrective action on the part of the federal government. The promotion of a few professional women is not enough.

The launching of a public service affirmative action program, while it would begin to break down the barriers of 'institutional' or 'patterned' discrimination within the public service, is not sufficient in itself to ensure the participation of the most seriously disadvantaged. For persons whose problems in achieving regular labour force participation have become serious, more is needed. To make an affirmative action program effective for the more severely disadvantaged a national New Careers program is required.

Essentially, what is involved is the establishment of access training positions with clearly defined "career ladders" leading to regular permanent jobs in the public service. Flexible financing and programming ensure that all supportive services required by the participants are available. These include such services as personal and family counselling, assistance with day care arrangements and dental care when required. Training in verbal and written communications, inter-personal relations, personal budgeting and other 'life skills' is available as well as on-the-job training in specific vocational skills.

Orientation and training of the candidates immediate job supervisors is a critical part of the program. It is through this training that the supervisor is made aware of the background of the candidate and the problems they face day to day, thereby coming to better understand their employment problems. Ways and means of positively dealing with these employment problems are explored. As a result, the nature of job tasks, the timetable for advancement and the supervision provided are adjusted to more closely suit the needs of the individual. The work environment and the social relations of production are modified at the same time that the individual is making the necessary personal adjustments.

At the provincial level such a program has been successfully pursued in Manitoba for the past five years. Utilizing the experience and expertise available in Manitoba a national New Careers program could be launched quickly. It could have a significant impact even within the short run. By instituting it in tandem with a public service Affirmative Action program, it will be possible to ensure full participation and adequate representation of disadvantaged people within the federal public service.

The National Affirmative Action and New Careers programs would apply to the federal government and all its agencies and corporations. But these are only a part of the public sector in Canada. We believe that the objective of equal opportunity and full participation of the disadvantaged in the economic life of the nation is of such importance that the federal government must not only set an example for provincial and municipal governments, but must also provide direct encouragement to action on their part to achieve this objective. We would therefore introduce a cost-shared program whereby the federal government would share the costs of New Careers type programming undertaken by provincial or municipal governments as part of planned affirmative action efforts. In this way we would hope to ensure that equal opportunity and full participation for disadvantaged Canadians within the public sector is a truly national effort.

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2. Manpower Development Enterprises

In the view of the New Democratic Party, it is necessary for government action to ensure that equal opportunity and full participation for the disadvantaged reach beyond employment in the existing public service. Thus a New Democratic federal government would initiate and sponsor entrepreneurial actions on behalf of the disadvantaged.

What does this mean?

It means that we would identify and reserve long-run, viable business opportunities for development by and on behalf of disadvantaged people. A full, flexible range of support services - community development, individual and family counselling, life skills training, on-the-job vocational training, day care, etc. - will be financed to allow for the participation of disadvantaged people without jeopardizing the viability of the development opportunities. Programming to encourage support and, over time increase the participation of workers in the management and decision-making of the enterprises will be included. When the employees have acquired the technical and management skills to run their enterprises profitably, the firms will be "spun-off" as locally controlled, collective enterprises. In this way we would increase employment, emply the disadvantaged, expend productive capacity, increase the output of goods and services and widen the base of social and collective capital.

The key to the success of such entrepreneurial efforts is the effective combination of social and economic development programming. Before any manpower development enterprise is launched a detailed economic and financial feasibility study would be prepared. Only viable projects would be accepted. A human development plan would set out the supportive services to be provided in the first years of operation, indicating how self-sufficiency would be developed over time. The performance of human development programming would be reviewed annually and the plan amended as required. A participation plan would spell out the structures for worker participation in decision-making, the evolution of these structures over time, and the programming to support such participation. The three plans - economic and financial, human development, and participation - would be combined and a timetable for enterprise independence established.

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The type of program suggested is not new. The Liberal government has discussed and initiated theoretically similar programs: entrepreneurial L.I.P., L.E.A.P., and some Work Activity Projects. The difference is that we could plan for success and proceed with commitment, deliberation and expertise. The Liberal government, on the other hand, has proceeded carelessly without sufficient planning without adequate and flexible support services, and without the commitment to make these projects work. In most cases, they have failed and will continue to do so. They almost appear programmed to fail. The tragedy of this situation is not only that it might discredit an excellent idea but that the failures reinforce the "failure syndrome" of participants, thereby deepening the employment disadvantages they face.

Successful manpower development enterprises are possible. We would harness the economic and social expertise of the federal government and its agencies to ensure the success of these efforts. We would invite provincial and municipal governments to join with us in identifying and evaluating business opportunities, planning the related programming and sponsoring manpower development enterprises. In this way, their expertise and local knowledge would inform our efforts.

Such manpower development enterprises represent specific investments by the federal government in the economic development of Canada. They would primarily be smaller and medium sized enterprises. They will be developed and implemented on a decentralized basis to ensure the sensitivity and responsiveness to local circumstance which such businesses require. As national investment priorities are determined through longer term economic planning, these efforts will be brought within the plan framework. In the meantime, manpower development enterprises will develop public entrepreneurship and demonstrate how social and economic objectives and programming can be brought together.

VIII. PRIVATE SECTOR EFFORTS

As indicated earlier, the New Democratic Party believes that the private sector must play a full and active role in achieving the national objective of full employment, both for the job-ready and for the disadvantaged.

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A substantial private sector role is required for the obvious reason that private sector is the largest employer and as such most of the problems occur therein: variations in private sector investment, fluctuations in private sector demand for labour, management's prerogative to hire and fire, traditional personnel practices and the physical and social organization of production contribute substantially to unemployment and the problems of the disadvantaged.

Yet it is the public sector, the unemployed, and the disadvantaged that now pay the associated costs. Governments cover the costs of direct transfer payments to the unemployed, the costs associated with increased alienation, social tension, family disintegration and the costs of various programs of rehabilitation and the maintenance of social order. The unemployed and disadvantaged lose their incomes and suffer the personal effects of "their failure" to find employment. A good part of the burden of these costs must now be shifted, from the individuals displaced and the public at large, to the private sector, so that responsibility for the problem is more adequately reflected in responsibility for the solution.

To date the private sector has not assumed its share of the responsibility for achieving full employment because it has not been in its interests to do so. Accepting such responsibility would increase costs and reduce profits. It would be contrary to the normal practices of business for one company to so act when its competitors do not. But just as we, as a society have come to the conclusion that profit maximization is not an acceptable reason to allow industry to pollute our environment, so we must now extend the definition of acceptable corporate performance to include broader employment obligations. These should include employment of the disadvantaged, increased job security for all employees and improved physical and social organization of production. Such developments have already taken place in such countries as Sweden, West Germany and Japan. They are long overdue in Canada.

The New Democratic Party, as the government of Canada, would institute a public policy framework designed to make it in the interests of the private sector to achieve full employment. In this way, we would seek to harness the initiative, creativity, energy and resources of the private sector in solving Canada's employment problems.

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This public policy framework would have three major components - an affirmative action program, a human resources improvement fund, and a system of investment funds.

1. Affirmative Action

To ensure that public policy with respect to the employment of the disadvantaged is given clear, concrete definition at the level of the individual firm, a national affirmative action program would be established to cover those firms within the federal jurisdiction. This program would be similar in content to public service affirmative action. Program staff would work with firms in reviewing the representation of various groups - women, native people, the physically and mentally handicapped, older workers, etc., - in their labour force, at each level. To the extent that representation of any group falls short of the proportion of that group in the population of the firm's labour market area, targets for the employment of that group would be set and a timetable for achieving the targets would be defined. The type and level of programming required to achieve the targets within the timetable would be discussed and set out in an affirmative action plan. Progress in achieving targets would be regularly reviewed.

We would hope that "institutional" or "patterned" discrimination in employment can be ended through the co-operation and "voluntary compliance" of the private sector. Some of the human resources improvement funds will be reserved for funding programs designed to achieve affirmative action targets. But if co-operation and assistance do not result in progress toward equal opportunity and full participation for the disadvantaged within the private sector, other more direct measures would have to be considered.

An additional component of a national affirmative action program would be a contract compliance system. Federal government contractors and suppliers would be required to submit information on their employment patterns and practices. Minimum employment standards in terms of adequate representation would be set. Employers meeting such standards could bid on contracts. Other employers could become eligible to bid by adopting an affirmative action plan, including specific corrective actions. When such an employer is awarded a government contract the affirmative action plan will be made part of the contractual obligations. Progress in implementing the plan will be reviewed before payments are made. Through contract compliance, the federal government affirmative action program can be extended well beyond the firms under federal jurisdiction to all firms that seek federal contracts.

To further broaden affirmative action into a truly national effort, we would encourage provincial governments to institute similar programs for firms within their jurisdiction. Monies from the human resources improvement fund could be made available to support affirmative action plans approved by provincial authorities.

2. Human Resources Improvement Fund

A New Democratic federal government would establish a human resources improvement fund to encourage and support the development of Canada's human resources - employed, unemployed and disadvantaged. Monies would be granted from the fund to employers and/or unions who carry out approved training programs. These could involve up-grading existing employees or training new employees. A sizeable portion of the fund would be reserved for supporting activities within approved affirmative action plans. In this way, the disadvantaged will share in the benefits of the program.

The fund, in part, will be financed by levies on employers. This will ensure that the private sector as a whole assumes more of the burden resulting from unemployment. It will also create a system where it is in the interest of firms to develop our human resources.

In essence, a program such as this will equalize the costs to employers of human resource development. Currently, some employers carry out training programs. These involve direct costs, which pay for themselves in improved productivity, only if the trained employees stay with the firm long enough for the increased productivity to cover the costs of the training. Other firms too often seek to benefit from the actions of more responsible employers by hiring their trained workers away from them. This type of situation acts as a disincentive to private sector investment in training.

Under the human resources improvement fund all employers will have to contribute financially on an equitable formula basis. Those employers who carry out training of the required standard will be reimbursed. Hence, firms which undertake no training or which train below the required standard, will de facto be compensating firms

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which train to the required standard. Firms would have the option of doing some training of the required standard and receiving a grant less than their levy, or of doing sufficient training of the required standard so that they obtain a grant equal to or greater than their levy.

As a result of instituting the human resources improvement fund, the quantity and quality of training in the private sector will be increased. This should improve productivity to the advantage of employers, employees, and the nation as a whole. It should also advance the self-development, self-fulfilment objectives of employees and result in more meaningful employment.

That part of the fund reserved for affirmative action would be used to finance specific activity packages to achieve plan targets. A wide range of activities could be included - specific recruitment efforts, supervisory orientation and training in relation to employing disadvantaged people, individual and family counselling, life skills training, vocational training, work environment modification, etc. The key to acceptance of these activities for funding would be the appropriateness of the package of services to the needs of the specific target groups and the approval of the appropriate federal or provincial affirmative action body. Firms which meet equal employment objectives without requiring affirmative action programming could have their contribution to this portion of the fund rebated. This would maintain the equity of the program.

Broad participation in the direction and management of the human resources improvement fund would be sought. The fund board of directors would include representatives of labour, management and the disadvantaged. Regional and industry specific advisory committees could be established to advise on such matters as appropriate training standards, successful affirmative action measures, applications for grants, and levy rates. At the plant level, joint management/union participation could be encouraged through a requirement that training grant applications be jointly sponsored, and approved programs be jointly supervised or evaluated.

The instituting of the human resources improvement fund will go a long way toward ensuring that the private sector accepts its full share of responsibility for full employment. It will benefit employers, employees, the unemployed (new employees) and the disadvantaged. It is

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an example of the use of an instrument of the state to achieve public objectives through the marshalling of private sector initiative, creativity, energy and resources.

3. Investment Funds: New Jobs Essential

The major limitation of the human resources improvement fund is that it does nothing to create new jobs or even out fluctuations in private sector capital investment. Thus it is insufficient in itself to ensure that the private sector accepts its share of responsibility for a full employment policy.

To fully ensure this, another similar program is required: a system of investment fund allocation as practiced in Sweden. Each major firm will be required to deposit a portion of its profits in special firm-specific accounts with the government. Firms can spend the monies in their accounts at the times and for the purposes approved by the government. Thus, the government never assumes direct control over these funds. Rather, the program provides a means to directly influence the timing and direction of private sector investment. Funds would be accumulated in periods of full employment and excess demand: they would be released in recessionary periods. Investment in regions of high unemployment would be given preference. Investment in inventories could also be allowed in periods of slack demand. The nature of the jobs to be created, the wages to be paid, the working conditions to be established, and the support of labour and/or community groups directly affected are some of the considerations which could be taken into account in approving investments which meet the general timing and locational criteria.

This type of program takes some time to begin to work. Over time, the monies in each firm's investment account grow. As they do, the pressure on the firm to spend the monies for investments within the guidelines grows. Similarly, experience in forecasting economic performance and releasing funds with sufficient lead time to counter cyclical unemployment, is built up and perfected over time.

The investment fund program is included in our proposals for achieving full employment because we believe it is an absolutely essential provision to ensure long run full employment. It is also included because it has the potential to facilitate structural improvement in the Canadian economy which most of the short term programs cannot do.

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The investment fund program is something that must be begun now, and which will subsequently be a major instrument in achieving investment priorities which will result from national economic planning. It is a program which relates both to our immediate objectives and the longer term imperative of national economic planning.

IX. CONCLUSION

The New Democratic Party believes that full employment is attainable.

It is a national objective which has been ignored in Canada to the peril of our people and our economy. It must now be vigourously pursued.

We all lose when unemployment is high.

The goods and services which might have been produced by the unemployed are lost forever. That production is not made up when the unemployed return to work.

The wages - and more important the pension rights which would have been earned had the unemployed been working are lost forever.

In most cases, this loss will never be made up through future earnings.

The New Democratic Party believes that the price we have to pay for continued high unemployment is too great in both human and economic terms. We have outlined a program for attaining full employment. It is a program which we, as a federal government, would follow.

We call upon the present government to do the same.

TABLE 1. SEASONALLY-ADJUSTED ESTIMATES, CANADA

	Monthly estimates and rates							Month-to-month changes				
	1976						1975	1976				
	Dec.	Nov.	Oct.	Sept.	Aug.	July	Dec.	Nov-Dec.	Oct-Nov.	Sept-Oct.	Aug.-Sept.	July-Aug.
							Thousands					
LABOUR FORCE - POPULATION ACTIVE	10,324	10,333	10,377	10,379	10,378	10,353	10,191	- 9	- 44	- 2	+ 1	+ 25
Men	6,492	6,483	6,504	6,476	6,433	6,447	6,436	+ 9	- 21	+ 28	+ 43	- 14
Women	3,832	3,850	3,873	3,903	3,945	3,906	3,755	- 18	- 23	- 30	- 42	+ 39
15-24 years	2,773	2,778	2,772	2,779	2,732	2,757	2,775	- 5	+ 6	- 7	+ 47	- 25
Men	1,545	1,546	1,546	1,533	1,481	1,511	1,549	- 1	-	+ 13	+ 52	- 30
Women	1,228	1,232	1,226	1,246	1,251	1,246	1,226	- 4	+ 6	- 20	- 5	+ 5
25 years and over	7,551	7,555	7,605	7,600	7,646	7,596	7,416	- 4	- 50	+ 5	- 46	+ 50
Men	4,947	4,937	4,958	4,943	4,952	4,936	4,887	+ 10	- 21	+ 15	- 9	+ 16
Women	2,604	2,618	2,647	2,657	2,694	2,660	2,529	- 14	- 29	- 10	- 37	+ 34
25-54 Men	4,101	4,094	4,106	4,108	4,103	4,112	4,024	+ 7	- 12	- 2	+ 5	- 9
EMPLOYMENT	9,546	9,579	9,593	9,626	9,628	9,602	9,479	- 33	- 14	- 33	- 2	+ 26
Men	6,061	6,063	6,057	6,090	6,026	6,032	6,044	- 2	+ 6	- 33	+ 64	- 6
Women	3,485	3,516	3,536	3,536	3,602	3,570	3,435	- 31	- 20	-	- 66	+ 32
15-24 years	2,386	2,403	2,413	2,447	2,386	2,404	2,429	- 17	- 10	- 34	+ 61	- 18
Men	1,330	1,335	1,341	1,360	1,292	1,311	1,355	- 5	- 6	- 19	+ 68	- 19
Women	1,056	1,068	1,072	1,087	1,094	1,093	1,074	- 12	- 4	- 15	- 7	+ 1
25 years and over	7,160	7,176	7,180	7,179	7,242	7,198	7,050	- 16	- 4	+ 1	- 63	+ 44
Men	4,731	4,728	4,716	4,730	4,734	4,721	4,689	+ 3	+ 12	- 14	- 4	+ 13
Women	2,429	2,448	2,464	2,449	2,508	2,477	2,361	- 19	- 16	+ 15	- 59	+ 31
25-54 Men	3,916	3,916	3,902	3,917	3,916	3,906	3,860	-	+ 14	- 15	+ 1	+ 10
UNEMPLOYMENT	778	754	784	753	750	751	712	+ 24	- 30	+ 31	+ 3	- 1
Men	431	420	447	386	407	415	392	+ 11	- 27	+ 61	- 21	- 8
Women	347	334	337	367	343	336	320	+ 13	- 3	- 30	+ 24	+ 7
15-24 years	387	375	359	332	346	353	346	+ 12	+ 16	+ 27	- 14	- 7
Men	215	211	205	173	189	200	194	+ 4	+ 6	+ 32	- 16	- 11
Women	172	164	154	159	157	153	152	+ 8	+ 10	- 5	+ 2	+ 4
25 years and over	391	379	425	421	404	398	366	+ 12	- 46	+ 4	+ 17	+ 6
Men	216	209	242	213	218	215	198	+ 7	- 33	+ 29	- 5	+ 3
Women	175	170	183	208	186	183	168	+ 5	- 13	- 25	+ 22	+ 3
25-54 Men	185	178	204	191	187	206	164	+ 7	- 26	+ 13	+ 4	- 19

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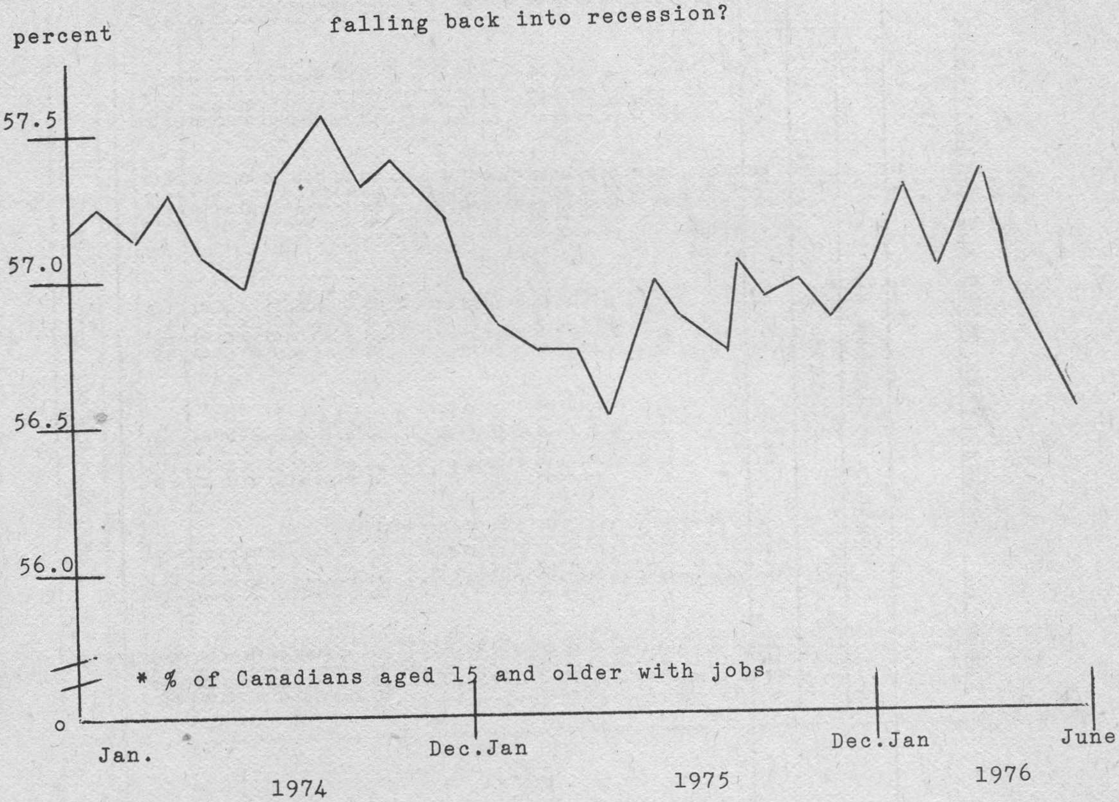
TABLE 1. SEASONALLY-ADJUSTED ESTIMATES, CANADA (continued)

	Monthly estimates and rates							Month-to-month changes				
	1976						1975	1976				
	Dec.	Nov.	Oct.	Sept.	Aug.	July	Dec.	Nov.-Dec.	Oct.-Nov.	Sept-Oct.	Aug.-Sept.	July-Aug.
	Percent.											
UNEMPLOYMENT RATE	7.5	7.3	7.6	7.3	7.2	7.3	7.0	+0.2	-0.3	+0.3	+0.1	-0.1
Men	6.6	6.5	6.9	6.0	6.3	6.4	6.1	+0.1	-0.4	+0.9	-0.3	-0.1
Women	9.1	8.7	8.7	9.4	8.7	8.6	8.5	+0.4	-	-0.7	+0.7	+0.1
15-24 years	14.0	13.5	13.0	11.9	12.7	12.8	12.5	+0.5	+0.5	+1.1	-0.8	-0.1
Men	13.9	13.6	13.3	11.3	12.8	13.2	12.5	+0.3	+0.3	+2.0	-1.5	-0.4
Women	14.0	13.3	12.6	12.8	12.5	12.3	12.4	+0.7	+0.7	-0.2	+0.3	+0.2
25 years and over	5.2	5.0	5.6	5.5	5.3	5.2	4.9	+0.2	-0.6	+0.1	+0.2	+0.1
Men	4.4	4.2	4.9	4.3	4.4	4.4	4.1	+0.2	-0.7	+0.6	-0.1	-
Women	6.7	6.5	6.9	7.8	6.9	6.9	6.6	+0.2	-0.4	-0.9	+0.9	-
25 - 54 - Men	4.5	4.3	5.0	4.6	4.6	5.0	4.1	+0.2	-0.7	+0.4	-	-0.4
PARTICIPATION RATE	60.6	60.7	61.1	61.2	61.3	61.3	61.2	-0.1	-0.4	-0.1	-0.1	-
Men	77.4	77.4	77.8	77.6	77.2	77.6	78.5	-	-0.4	+0.2	+0.4	-0.4
Women	44.3	44.5	44.9	45.3	45.9	45.5	44.4	-0.2	-0.4	-0.4	-0.6	+0.4
15 - 24 years	61.8	62.0	62.0	62.2	61.3	61.9	63.1	-0.2	-	-0.2	+0.9	-0.6
Men	68.2	68.4	68.5	68.0	65.8	67.3	69.8	-0.2	-0.1	+0.5	+2.2	-1.5
Women	55.3	55.5	55.3	56.3	56.6	56.5	56.2	-0.2	+0.2	-1.0	-0.3	+0.1
25 years and over	60.1	60.3	60.8	60.9	61.3	61.1	60.5	-0.2	-0.5	-0.1	-0.4	+0.2
Men	80.8	80.8	81.3	81.2	81.5	81.4	81.7	-	-0.5	+0.1	-0.3	+0.1
Women	40.4	40.7	41.3	41.5	42.2	41.8	40.3	-0.3	-0.6	-0.2	-0.7	+0.4
25 - 54 - Men	94.4	94.4	94.8	95.0	95.0	95.5	94.6	-	-0.4	-0.2	-	-0.5

Financial Times of Canada
August 9, 1976

EMPLOYMENT RATE *

falling back into recession?



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* 1) Unemployment Rate
2) Participation Rate
3) Unemployed in Numbers

UNEMPLOYMENT - ANNUAL AVERAGES 1968-1975

		1968	1969	1970	1971	1972	1973	1974	1975
CANADA	1)	4.8%	4.7%	5.9%	6.4%	6.3%	5.6%	5.4%	7.1%
	2)	55.5%	55.8%	55.8%	56.1%	56.5%	57.5%	58.3%	58.8%
	3)	382,000	382,000	495,000	552,000	562,000	520,000	525,000	707,000
ATLANTIC	1)	7.3%	7.5%	7.6%	8.6%	9.0%	8.9%	9.7%	11.6%
	2)	48.2%	48.1%	47.5%	48.1%	48.6%	50.5%	51.6%	51.9%
	3)	47,000	49,000	50,000	58,000	63,000	66,000	75,000	93,000
QUEBEC	1)	6.5%	6.9%	7.9%	8.2%	8.3%	7.4%	7.3%	8.8%
	2)	54.3%	54.5%	54.3%	54.9%	54.7%	56.2%	56.7%	57.2%
	3)	145,000	158,000	183,000	197,000	201,000	189,000	190,000	239,000
ONTARIO	1)	3.5%	3.1%	4.3%	5.2%	4.8%	4.0%	4.1%	6.0%
	2)	57.7%	58.0%	58.0%	58.3%	59.1%	59.7%	60.7%	61.3%
	3)	104,000	95,000	134,000	170,000	162,000	142,000	152,000	228,000
PRAIRIES	1)	3.0%	2.9%	4.4%	4.5%	4.5%	3.9%	2.8%	3.4%
	2)	56.8%	56.9%	57.1%	57.0%	57.5%	58.4%	59.2%	59.3%
	3)	39,000	39,000	61,000	63,000	64,000	58,000	43,000	54,000
BRITISH COLUMBIA	1)	5.9%	5.0%	7.6%	7.0%	7.6%	6.5%	6.0%	8.3%
	2)	56.0%	56.7%	57.3%	57.2%	57.5%	58.4%	59.3%	60.2%
	3)	47,000	42,000	67,000	64,000	72,000	65,000	64,000	93,000

(Figures from Table 32, Summary Labour Force Characteristics, Page 59,
The Labour Force, December 1975)

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* 1) Unemployment Rate
2) Participation Rate
3) Unemployed in Numbers

1976 UNEMPLOYMENT RATES - Seasonally Adjusted

		JAN.	FEB.	MARCH	APRIL	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	AVERAGE
NFLD.	*1)	11.6%	13.1%	13.4%	14.0%	12.6%	12.4%	14.4%	14.9%	14.4%	13.9%	14.8%	13.8%	13.6%
	2)	47.0%	47.7%	48.6%	48.6%	49.6%	50.3%	50.4%	50.5%	50.5%	50.1%	48.9%	48.3%	49.4%
	3)	20,000	23,000	24,000	25,000	23,000	23,000	27,000	28,000	27,000	26,000	27,000	25,000	25,000
P.E.I.	1)	...	...	...	8.3%	12.5%	12.4%	13.1%	8.9%	9.5%	11.7%	10.1%	8.6%	9.8%
	2)	59.5%	60.7%	58.3%	56.5%	56.5%	57.6%	57.6%	55.3%	57.0%	55.8%	58.1%	55.8%	57.0%
	3)	...	...	...	4,000	6,000	6,000	6,000	4,000	5,000	6,000	5,000	4,000	5,000
N.S.	1)	7.9%	7.6%	8.2%	9.1%	9.7%	10.5%	9.6%	11.0%	10.4%	10.9%	11.2%	9.8%	9.6%
	2)	56.1%	56.1%	55.9%	56.0%	54.3%	54.7%	54.5%	55.0%	55.1%	55.6%	55.4%	54.9%	55.2%
	3)	26,000	25,000	27,000	30,000	31,000	34,000	31,000	36,000	34,000	36,000	32,000	33,000	31,000
N.B.	1)	11.0%	11.2%	11.5%	11.2%	10.9%	11.5%	10.8%	11.9%	11.4%	11.8%	11.0%	10.3%	11.1%
	2)	55.0%	54.1%	54.1%	53.8%	52.9%	53.9%	53.4%	53.5%	53.8%	55.6%	53.6%	53.0%	53.7%
	3)	29,000	29,000	30,000	29,000	28,000	30,000	28,000	31,000	30,000	31,000	29,000	27,000	29,000
QUEBEC	1)	7.9%	8.5%	7.7%	8.3%	7.9%	7.8%	8.4%	9.1%	9.7%	10.1%	9.8%	9.8%	8.7%
	2)	59.0%	58.9%	58.4%	58.5%	57.9%	57.9%	58.4%	57.9%	58.0%	58.4%	58.1%	58.2%	58.3%
	3)	214,000	233,000	208,000	224,000	214,000	210,000	228,000	245,000	264,000	278,000	269,000	269,000	236,000
ONTARIO	1)	5.6%	5.9%	6.2%	6.5%	6.4%	6.3%	6.5%	5.8%	5.7%	6.3%	6.2%	6.5%	6.2%
	2)	64.3%	63.9%	64.6%	64.4%	64.2%	63.8%	64.1%	64.1%	64.0%	63.8%	63.2%	63.3%	64.0%
	3)	221,000	231,000	246,000	255,000	251,000	248,000	258,000	231,000	227,000	248,000	242,000	257,000	242,000
MAN.	1)	5.1%	4.8%	4.9%	4.5%	4.3%	4.5%	4.6%	4.0%	4.6%	4.9%	4.6%	4.9%	4.7%
	2)	61.6%	59.6%	61.0%	60.7%	60.4%	60.8%	61.5%	61.7%	61.9%	61.4%	61.7%	60.9%	61.2%
	3)	23,000	21,000	22,000	20,000	19,000	20,000	21,000	18,000	21,000	22,000	21,000	22,000	21,000
SASK.	1)	4.3%	4.2%	4.0%	4.0%	4.5%	4.5%	4.5%	4.7%	2.2%	4.2%	3.4%	3.4%	4.0%
	2)	60.1%	60.7%	59.8%	60.5%	60.8%	60.1%	60.3%	60.9%	60.1%	60.0%	60.7%	60.4%	60.4%
	3)	17,000	17,000	16,000	16,000	18,000	18,000	18,000	19,000	9,000	17,000	14,000	14,000	16,000
ALTA.	1)	4.1%	3.6%	3.8%	4.1%	4.5%	3.8%	3.9%	4.0%	3.7%	3.7%	3.5%	4.0%	3.9%
	2)	66.3%	67.6%	68.0%	67.7%	67.9%	66.3%	66.0%	65.7%	65.8%	65.7%	65.8%	65.6%	66.5%
	3)	34,000	31,000	33,000	35,000	39,000	32,000	33,000	34,000	32,000	34,000	30,000	32,000	33,000
B.C.	1)	8.5%	8.9%	8.7%	9.7%	9.8%	8.8%	9.1%	8.3%	8.5%	7.3%	7.3%	8.8%	8.6%
	2)	60.1%	61.5%	61.5%	60.8%	61.1%	61.4%	61.8%	62.4%	62.3%	61.9%	61.9%	61.3%	61.5%
	3)	93,000	100,000	98,000	108,000	110,000	100,000	104,000	96,000	98,000	84,000	84,000	100,000	98,000

Statistics from The Labour Force.

Taxation

TAXATION IN CANADA

Ten years ago, the Carter Royal Commission presented a series of important recommendations for reforming the Canadian tax system. In the years which followed the presentation of the Carter Report, income tax reform became one of the most important topics of debate in the public policy field in this country. Unfortunately, by 1971, it had become evident that the federal government was not prepared to act on many of the Carter Report's most important recommendations. Instead, it implemented a watered-down, false, tax "reform" in 1972 which ensured that the Canadian tax structure would remain grossly unfair.

Recent income distribution data published by Statistics Canada show that no significant improvement in income distribution has taken place in the post-war period. Indeed, several major studies published within the last year show a deterioration in the equity of income distribution since 1965.

Following is a table from the Economic Council of Canada's Thirteenth Annual Revenue showing the distribution of incomes among successive fifths (quintiles) of Canadians.

DISTRIBUTION OF TOTAL FAMILY INCOMES
BEFORE TAXES, SELECTED YEARS, 1965-74

	Quintiles [1]					
	First	Second	Third	Fourth	Fifth	Total
1965	4.44	11.77	17.95	24.49	41.35	100
1967	4.19	11.45	17.82	24.64	41.90	100
1969	4.28	11.00	17.58	24.56	42.58	100
1971	3.65	10.60	17.99	24.83	42.93	100
1973	3.84	10.71	17.65	25.15	42.65	100
1974	4.02	10.91	17.68	24.87	42.52	100

Source: Economic Council of Canada, Thirteenth Annual Review

1. All family units are divided into five quintiles, each representing 20 per cent of the total. The first quintile comprises families with the lowest incomes, and the fifth quintile comprises families with the highest incomes.

The table shows that the poorest fifth of Canadians received 4.44% of the total income in 1965, by 1974 their share had deteriorated to 4.02%. In contrast, the richest fifth of Canadians saw their share rise from 41.35% to 42.52% in 1974.

Of course the distribution after income taxes is always somewhat more equal than before income taxes. In other words, the share of the total after-income-tax income of the poorest group is higher than their before income tax share. Conversely the richest group's share decreases after income taxes. Since 1971, the last pre-"reform" year, this redistributive impact of the income tax system has been significantly weakened.

The following table shows how the percentage changes in shares due to income taxes have changed from 1971 to 1974.

REDISTRIBUTIVE IMPACT OF INCOME TAXES
1971 and 1974

Quintile	% Change in Share Resulting From Income Taxes 1971	% Change in Share Resulting From Income Taxes 1974	Difference
	%	%	%
Lowest	+0.6	+0.6	No change
Second	+0.9	+0.8	-0.1
Third	+0.6	+0.5	-o.1
Fourth	+0.1	0.0	-0.1
Highest	-2.2	-1.9	+0.3

Source: Statistics Canada 13.207 and 13.210.

This situation has been created by tax changes in 1972 and since then which favour upper income groups, mainly at the expense of the three middle quintiles. It should also be noted that "reform" lowered income taxes relative to the pre-reform system. This results in heavier reliance on the more regressive forms of taxation, such as sales and property taxes and health premiums.

This inequitable situation has prompted major protests from a number of sources, including governments of virtually all political persuasion - and most recently by the federally sponsored National Council of Welfare. In a report issued in November of 1976, the Council stated that the Canadian tax system is little more than a "hidden welfare system" which involves the transfer of massive tax benefits to our largest corporations and our richest citizens. It is "hidden" of course, because the tax system is so complicated, few people understand it - and most of those who do are the ones who benefit from it. Thus, it receives little general publicity. In addition, tax returns are confidential, so exactly how much the big companies and the rich receive from the Tax Department is a secret which may never be known fully - even though the benefits are supported directly by ordinary taxpayers.

In the United States, concerns about inequities in the tax system have led President Carter to promise that his new administration will strive for early, meaningful reform. However, in some important respects, the U.S. income tax system is already ahead of Canada. At least in the United States, the people are told how much "hidden welfare" is paid out in total through the tax system each year. The U.S. Government recognizes, quite correctly, that there is no real difference between the kind of government expenditures which are normally included in a budget and the kind of tax expenditures which are considered as revenue cuts and thus would not ordinarily appear in standard government accounts. Here in Canada, however, the federal government has, up to now, refused to provide any accounting of "tax expenditures"; the result is that we have to rely on agencies such as the National Council of Welfare to inform the Canadian people about a segment of the federal budget which appears to exceed by far the costs of any other single national programme. Tax breaks to big corporations cost the Canadian taxpayer more each year than federal spending on health care, or higher education, or old age assistance, or a number of other programmes which the federal government often argues it must cut back because it simply "doesn't have the money". The fact is that if the Canadian tax system were even partly cleared of its unfair subsidies for the rich and for large corporations, taxes for ordinary working people, for lower income Canadians, for elderly people, farmers, and small business men could all be cut substantially. At the same time, new programmes could be introduced to help these people and to expand our economy.

The New Democratic Party believes that <u>real</u> tax reform must be one of the first priorities of the federal government.

Illustrations of the Unfairness of the Canadian Tax System

The Personal Income Tax

Tax Credits vs Tax Exemptions

The present system of granting tax relief to Canadians through a system of exemptions, though grounded in historic tradition, has nothing to commend it from the standpoint of equity. Even the House of Commons Standing Committee on Tax Reform in 1971 recognized the many advantages tax credits have to offer but recommended the retention of exemptions in the so-called reforms of 1972 because they "have the advantage of retaining a method of which individual taxpayers are now accustomed". With

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this kind of reasoning to justify retention of features which benefit higher income groups more than lower income groups it is no wonder that no real reform took place in 1971.

By definition, exemptions reduce the income subject to tax. Thus the value of a tax exemption increases with a taxpayer's tax rate, with the result that the maximum advantage from exemptions is obtained by those at the top end of the income scale. Those at the bottom end of the income scale, on the other hand, often receive little or no real benefit. This is illustrated in the following table.

VALUE OF ADDITIONAL $1,000 TAX EXEMPTION

Gross Income Level	Value of Additional $1,000 Exemption		
	Single Taxfiler	Married Taxfiler	Married Taxfiler, Two Dependents Under Age 16
$	$	$	$
2,000	0	0	0
3,000	10	0	0
4,000	48	0	0
5,000	230	9	0
6,000	256	47	12
8,000	274	257	248
10,000	285	274	266
15,000	318	313	300
25,000	428	410	379
50,000	509	509	510
75,000	561	561	560
100,000	613	613	613

As can be seen from the table, the higher the income, the greater the benefits. Thus the greatest benefits of the exemption system accrue to those with the least need and insufficient benefits are directed where they are really required. In contrast, tax credits would permit benefits to be paid out to individuals including those whose incomes are so small as not to be taxable in relation to their needs. Such a system would be far more efficient and would provide average and lower income people with significantly larger benefits than they are now receiving. In brief, it would permit benefits to be directed clearly and explicitly where they are required most at the same time as excessive and wasteful benefits currently accruing to the highest income groups could be eliminated. It would be possible to replace current exemptions with tax credits in such a way that most Canadian taxpayers would be better off or at least as well off. Under such a system, the major advantage would be shifted from the rich to the lower income and average income taxpayers. This is a major priority with the New Democratic Party.

Recommendation: Tax credits should replace tax exemptions because the latter provide greater benefit to those in higher incomes.

Indexing

Starting in 1974, the federal government introduced a measure of what it termed "inflation protection" into the income tax system. Under this system, called indexation, the federal government increases tax exemptions and tax brackets each year in line with increases in the Consumer Price Index. In arguing for this idea, which it borrowed from the Conservative Party, the federal government stated that indexing would ensure that inflation-induced increases in income would not have an adverse tax impact on individuals. In other words, individuals would not move into higher tax brackets simply because of inflation. It was also argued that this would eliminate revenue "windfalls" realized by the federal government as a result of inflation and would make it necessary for the government to increase its rates explicitly when it needed more revenue.

While the stated goal of indexing - that is, to provide protection against inflation - obviously has merit, the actual indexing system itself has compounded the inequities in the tax system. Although the federal government argues that indexing has benefitted average and lower income people more than higher income earners in percentage terms, its own figures prove that the reverse is true in terms of absolute dollars. Wealthy taxpayers in the highest tax brackets have received very large tax reductions as a result of indexing, while those at the lower end of the income scale have benefitted far less. The following table compares the tax savings received by a family of four in various income groups between 1973 and 1977 as a result of indexation.

TAX SAVING* DUE TO INDEXING
FOR A FAMILY OF FOUR
1973 - 1977

Total Income $	Total Tax Payable 1973 $	Total Tax Payable 1977 $	Tax Saving $
5,000	153	-	153
10,000	1,518	847	671
15,000	3,164	2,283	881
25,000	7,414	5,751	1,663
50,000	20,158	17,585	2,573
100,000	50,102	45,579	4,523

*Includes provincial income tax saving at "standard" 30.5% rate. The New Democratic Party believes that this kind of regressive measure is wasteful and unfair. Funds which could be used, through a progressive tax credit plan, to

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help people in average and low income groups who have been hardest hit by inflation, are being misdirected to those who are far more able to meet increased living costs resulting from inflation. The cumulative annual cost of indexing by 1977 is in the order of $5 billion.* At the same time as the indexing system is squandering government revenues on largely high income groups, the current federal government chose not to index family allowances in 1976 at a continuing saving of $300 million largely from low and moderate income groups. In total, the impact has been to transfer resources from low and moderate income families to the rich.

*The annual indexing press releases of the Department of Finance contain estimates of the federal loss for each year. To these figures were added an adjustment for provincial losses and increases in the annual costs for earlier years to reflect growth in real incomes.

Recommendation: Once a system of progressive tax credits is in place instead of exemptions, the real income benefits of the credits should be protected and augmented through equitable indexation.

Marginal Tax Rates

In 1971, the progressive rate structure in Canada ranged from a low rate of 0% of taxable income up to a high rate of 80% of taxable income. These rates include the "standard provincial rate". As part of "tax reform", the rates applicable to low and moderate income groups were increased and those on higher income groups decreased significantly. The changes in rates for various taxable income levels are shown in the following table.

CHANGES IN PERSONAL INCOME TAX RATES:
1971 - 1977
(includes "standard provincial rates)

Taxable Income Level	Marginal Rates		Difference*	
	1971	1977	Percentage Points	Percentage
$	%	%	%	$
500	0	7.8	+7.8	+Infinity
1,000	16	23.5	+7.5	+46.9
1,500	16	24.8	+8.8	+55.0
2,000	18	24.8	+6.8	+37.8
2,500	18	24.8	+6.8	+37.8
3,000	19	26.1	+7.1	+37.4
4,000	22	26.1	+4.1	+18.6
5,000	22	27.4	+5.4	+24.5
7,500	26	30.0	+4.0	+15.4
10,000	35	32.6	-2.4	- 6.9
15,000	45	35.2	-9.8	-21.8
25,000	50	45.7	-4.3	- 8.6
50,000	55	50.9	-4.1	- 7.5
100,000	65	61.3	-3.7	- 5.7
250,000	70	61.3	-8.7	-12.4
300,000	80	61.3	-18.7	-23.4

* The proposed established programme financing tax transfer will not affect these differences materially.

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Clearly, those at the top end of the scale have received an enormous advantage. The rationale offered for the reduction of the top marginal rate was to promote "incentives" for hard work. This tax benefit for the rich was financed by increasing the burden of taxation on the middle income groups in Canada. Not surprisingly, there has been no evidence that the rich are working harder as a result of this additional tax reduction and there is reason to believe that the middle income groups now view themselves as overtaxed. The only obvious change has been a reduction in the degree to which wealthy people contribute to the costs of public services - and a corresponding increase in the degree to which others must make up the difference.

Recommendation: The effects of the 1971 "Tax Reform" should be reversed; marginal tax rates at the top end of the income scale should be raised and those at the bottom end should be reduced.

The 1976 Surtax

In December 1975, the federal government announced plans to introduce a temporary surtax on persons with taxable incomes in excess of $30,000. The stated purpose of the surtax was to reinforce the anti-inflation programme which had just taken effect. At the time, the Minister of Finance argued that wealthy people, who were in the best position to protect themselves against inflation, should be expected to bear a fair share of the burden of the costs of government at the time of a national campaign against inflation. The surtax was also a partial response to expressions of concern that it would be relatively simple for well-to-do people to find loopholes in the new income controls.

Although the anti-inflation programme has not yet been discontinued, the federal government has decided to end the surtax after only one year. In other words, the first formal "decontrol" measure by the federal government was the granting of a further tax reduction to the well-to-do. It was pointed out at the time that this decision, which resulted in a revenue loss of over $100 million, was taken at a time when the federal government was arguing it was hard-pressed to continue funding critical health and other social programmes in equal partnership with the provinces.

As a result of the abolition of the surtax and indexing, a taxpayer supporting a spouse and two children under 16 will save $3,694 in taxes, in 1977, at a $100,000 level; in other words such people are in the fortunate situation of having a guaranteed income increase in 1977 of$3,694 over their 1976 incomes. In marked contrast, average working people receive no benefit

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from the abolition of the surtax and have their income increases limited to 6% under A.I.B. guidelines. For a family of four earning $10,000 this increase - which must be achieved through negotiation - amounts to $600 before taxes - a far cry from the $3,700 guaranteed the $100,000 a year person after taxes.

Recommendation: To preserve some semblance of equity with the anti-inflation programme, the surtax should be reinstated for at least the duration of the anti-inflation programme.

R.R.S.P.'s, R.H.O.S.P.'s, THE INVESTMENT INCOME DEDUCTION, etc.

In recent years, a large number of new tax breaks have been introduced into the income tax system. Some examples include Registered Retirement Savings Plans, Registered Homeownership Savings Plans, a $1,000 Investment Income Deduction, and so on. More so than the case of tax exemptions, these provisions are of greatest advantage to those with the largest incomes and highest tax rates. First, relatively few lower or average income families are in a position to take any advantage of these tax breaks - few can afford to save $2,000 or $3,000 each year in these special tax shelters. Similarly, very few ordinary working people are in a position to receive interest or investment income sufficient to take any significant advantage of the exemptions provided. Second, for those few low or moderate income earners in a position to take advantage of these tax breaks, the tax advantage as a result of the special deductions is far less than for those people paying taxes at higher marginal rates. This is illustrated in the following table.

VALUE OF $1,000 DEDUCTION

Income Level $	Value of $1,000 Deduction: Single Taxfiler $	Married Taxfiler $	Married Taxfiler With Two Dependents Under Age 16 $
2,000	0	0	0
3,000	10	0	0
4,000	48	0	0
5,000	230	9	0
6,000	256	47	12
8,000	274	257	248
10,000	285	274	266
15,000	318	313	300
25,000	428	410	379
50,000	509	509	510
75,000	561	561	560
100,000	613	613	613

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In addition, as mentioned earlier, the higher income groups are in a better position to take advantage of the deduction. Following is a table showing the distribution of R.R.S.P. claims for 1974.

DISTRIBUTION OF R.R.R.S.P. CLAIMS, 1974

Total Income Range	% of Filers in This Range	% of Filers in This Range Claiming Benefits	% of Total Benefits	Average Tax Saving Per Claimant	Average Tax Saving Per Filer
$	%	%	%	$	$
Under - 5,000	38.4	0.7	0.5	81.37	1.02
5,000 - 10,000	31.5	5.4	7.0	182.02	9.81
10,000 - 15,000	18.7	14.6	16.2	308.47	38.43
15,000 - 20,000	6.8	18.0	19.0	520.70	125.01
20,000 - 25,000	2.2	38.6	16.4	845.01	326.21
25,000 - 50,000	1.9	52.8	29.1	1,249.27	664.13
50,000 plus	0.4	61.7	11.8	1,952.99	1,211.80

Source: Revenue Canada's Greenbook of Taxation Statistics for 1974 and the National Council of Welfare's "Hidden Welfare System" 1976.

As is shown in the table, some 76% of the benefits are received by 11.3% of filers with more than $15,000 in total income.

The $50,000 and over range which represented 0.4% of all filers received 11.8% of the benefits with over 60% of its members claiming benefits. The average tax saving per taxfiler in this range amounted to over $1,200. In marked contrast, the "under $5,000" income range represented some 38.4% of all filers and received 0.5% of the benefits. Only 0.7% of filers in this range claimed benefits and the average tax saving per filer was $1.02. Again, the rich benefit while the ordinary worker continues to pay tax on all his income.

Unfortunately, these trends have been further aggravated by the increased limits on R.R.S.P.'s recently enacted by the Liberal Government. The increase in limits for employees from $2,500 to $3,500 benefits only those with incomes in excess of $12,500 - this group represented 19.2% of filers in 1974. Similarly, the increased limits for the self-employed from $4,000 to $5,500 benefits those with incomes in excess of $20,000 - this group represented 2.4% of filers in 1974.

Recommendation: The current system of R.R.S.P.'s, R.H.O.S.P.'s, etc., should be reviewed with a view to redirecting benefits to lower income groups and restricting the excessive benefits accruing to the highest income groups.

The Elimination of Estate and Gift Taxation

As one of its so-called "tax reforms", the federal government eliminated national estate and gift taxation at the end of 1971. This decision meant that, insofar as the federal government was concerned, massive transfers of wealth could take place without any tax effect other than that resulting from the imposition of new, quite limited capital gains tax provisions. In eliminating explicit estate and gift taxation, the federal government left it up to the provinces to move into these fields. Initially, most provinces did so, but in subsequent years, some withdrew from the field, leaving only Quebec, Ontario, Manitoba and Saskatchewan, with succession duty legislation. Although the fact that the largest provinces still have wealth transfer taxes means that there remains some equity in the system, federal withdrawal has created major loopholes and administrative problems.

It is the position of the New Democratic Party that the federal government must re-enter the estate and gift tax field by applying such taxes nationally on an equitable basis with appropriate provisions for the transfer of family farms and adequate provisions for the family of the deceased. Income from inheritances and gifts should not be treated in a way which is significantly different from income from work. To do otherwise is tantamount to returning to a system of encouraging the accumulation of wealth in the hands of a very few people - something which is antithetical to a truly democratic society.

Recommendation: Estate and gift taxation at the national level should be re-introduced with equitable treatment to ensure adequate provision for the family of the deceased and to preserve and protect family farms.

Capital Gains and Dividend Income Taxation

The Carter Royal Commission on Taxation favoured the principle that every dollar of income - regardless of the form in which it is received - should be treated in the same way for tax purposes. This was the famous "a buck is a buck" theory which was supported by the New Democratic Party and by many tax experts, but which was subsequently rejected by the federal government with no apparent justification.

One of the examples of the injustice caused by the rejection of the "buck is a buck" theory can be seen in the treatment of capital gains. Under current federal tax law, only one-half of capital gains - such as gains on land or buildings, or shares, for example - is subject to income

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taxation. At the same time, income from work is fully taxed. Since relatively few people outside the well-to-do income ranges receive any significant capital gains, the benefit of this special tax break flows almost entirely to the rich in Canada. Following is a table which illustrates the tax advantage of capital gains income vs. wage and salary income.

COMPARISON OF TAX LIABILITIES - INCOME FROM EMPLOYMENT AND INCOME FROM CAPITAL GAINS

(family of four)

Total Income $	Tax if Income From Wages or Salary $	Tax if Income From Capital Gains $	Savings For Capital Gains Recipient $
5,000	-	-	-
10,000	847	-	847
15,000	2,283	237	2,046
25,000	5,751	1,578	4,173
50,000	17,585	5,808	11,777
100,000	45,579	17,661	27,918

As can be seen from the table, the effective tax burden on capital gains income is under half that of ordinary wage and salary income.

In addition to the advantages of the $1,000 investment income deduction and prospects for largely untaxed capital gains, shareholders in Canada also receive substantial tax advantages under dividend tax credit provisions. In contrast, the wage and salary earner pays full tax from the first dollar of income received.

Finally, it may be noted that it is the higher income groups which "earn" on an effort-free basis the bulk of interest and dividend income as well as capital gains. Following is a table showing the magnitude and distribution of such income as reported for 1974.

DISTRIBUTION OF INTEREST, DIVIDEND AND CAPITAL GAINS INCOME, 1974

Income Class $	Interest Dividend Capital Gains Income* $	% Reported by This Class %	% Filers in This Class %	Average Interest Dividend and Capital Gains Income $
Under - 5,000	918,096	14.3	38.4	205.84
5,000 - 10,000	1,307,355	20.4	31.5	357.28
10,000 - 15,000	1,031,219	16.1	18.7	476.39
15,000 - 20,000	708,911	11.0	6.8	904.71
20,000 - 25,000	451,297	7.0	2.2	1,742.49
25,000 - 50,000	972,638	15.1	1.9	4,317.50
50,000 plus	1,033,724	16.1	0.4	20,578.17

Source: Revenue Canada's Greenbook of Taxation Statistics, 1974 Taxation Year.

* This includes taxable amounts of dividends, bond interest, bank interest, mortgage interest, income from trusts, annuity income, other Canadian investment income, foreign investment income, and capital gains.

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Recommendations: Capital gains should be treated the same as wage and salary income for income tax purposes.

The current dividend tax credit of 20¢ on the dollar should be abolished - with dividend income treated the same as any other income for tax purposes.

Entertainment and Related Expenses

It is still possible for self-employed people to deduct a large portion of their day-to-day expenditures as "work expenses" when calculating their income tax liabilities. Such deductions include extravagant business lunches, dinners and "entertainment expenses", certain conventions, automobile expenses, and so on. Although this loophole was tightened up somewhat in 1972, it remains a major advantage which high income self-employed people have over ordinary wage and salary earners. Under the current income tax legislation, ordinary wage earners are permitted a maximum $150 tax offset for work expenses - regardless of the kind of work they do. A fair tax system should treat employment-related expenses in the same manner for all workers - regardless of whether they are self-employed or on salary.

Recommendation: Strict limits should be placed on discretionary deductible expenses for the self-employed. Legitimate work-related expenses of the wage and salary earner such as work clothing, tools and the like should be recognized as deductible expenses on the same basis as they are recognized for self-employed individuals.

Corporation Taxation

In 1972, the then Leader of the New Democratic Party, David Lewis, wrote a book which he titled "Louder Voices". In his book, Mr. Lewis analyzed the tax treatment of corporations in this country in recent years and concluded that it was grossly unfair. It was around this time that the now well-known"corporate ripoff" concerns began to be expressed by our party.

The essence of our argument then - and it has not changed, because the tax system has not changed other than to increase corporate rip-offs - is that because of the great power and influence of the large corporations and because of the complexity of the tax system, a succession of federal governments have granted enormous concessions to big business which have gone virtually unnoticed by ordinary people. We estimate the total annual value of these corporate incentives to be in excess of $6 billion per year -

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roughly $5 billion because corporations are not required to pay current tax on their current incomes and $1 billion because of the rate reductions since 1972.

This is a serious problem for rational public policy because it means that a large segment of the government's discretionary financing decisions are not subject to regular scrutiny. Relatively few people are aware of the magnitude of the hidden "tax expendutures" involved. Again, the United States - despite the many faults in its tax system - is well ahead of Canada in providing a public accounting of "tax expenditures". Every year a detailed summary of the costs of these tax concessions is presented to Congress. In Canada, no one has a clear indication of the precise cost of corporation tax concessions - apparently not even the federal Department of Finance. It is only possible to estimate the costs based on partial information which has been made available through official sources. On this basis, it is now believed that the annual value of these corporate tax concessions is in excess of $6.0 billion - an amount equivalent to over 12% of the 1976/77 federal budget. In other words, it could be argued that the federal budget is really about 11% higher than the figures that are printed in the Minister of Finance's annual public statement.

It is interesting to note that this "hidden" part of the budget is seldom talked about by either of the old-line parties - especially when the subject of expenditure restraint is brought up. The New Democratic Party, on the other hand, believes that there should be a full accounting of corporate tax concessions and that the amounts of money involved should be subject to regular debate, every year, along side other federal budget priorities. In times of restraint, the people of Canada should have a right to choose whether they want to cut a dollar for health care, schooling, housing, assistance for pensioners, or whether they want to cut a dollar in tax relief for large corporations, many of which are highly profitable and foreign-owned. To date, because there is no accounting of the value of tax concessions, incentives and the like, government often feels it has no alternative but to cut social programming at a time when major increases in the costs of tax concessions are taking place.

<u>Recommendations</u>: There should be an annual accounting of all tax expenditures.

These tax expenditures should be subjected to the same careful scrutiny as other government expenditures with

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those that are outdated or of questionable value being phased down or eliminated.

Fast Write-Offs

In recent years, the federal government has argued strongly that tax incentives have to be provided to corporations in order to combat unemployment. This has resulted in millions of dollars going towards large, capital-intensive corporations - many of which are owned and controlled from outside Canada. This party has long questioned these kinds of tax incentives as means of encouraging employment over the longer term. Now, it appears that the basis for our doubts has been confirmed by federal studies which indicate that this is an extremely inefficient way of creating jobs. A recent federal paper showed that the average cost per job created through corporate tax incentives was about $30,000. This is more than four times as much as the average cost per job created through direct employment programmes.

Recommendation: Excessive capital cost allowances and fast write-offs should be discontinued and replaced with a system under which such costs may be deducted on the basis of actual wear and tear. By limiting the deduction to actual wear and tear or use of capital assets, corporate tax revenues would increase by an estimated $2 billion annually.*

Rates

During the past five years, unknown to most Canadians, the standard rates of corporation tax were reduced every year by the federal government. The reduction schedule was legislated to start in 1972, and the rates were reduced by one percentage point each year through 1976. During that time, additional new tax incentives were also provided. These include special low rates for manufacturing and processing activity. It is interesting to note that this period of continuing rate reductions carried on through a number of years of record corporate profits and later into the first full year of the anti-inflation programme - at a time when, in theory at least, prices and profits were supposed to be under some form of control.

* Statistics Canada's 61-208 reported capital cost allowances to exceed depreciation as recorded in the books of the corporations by $1 billion in 1972 and $2 billion in 1973. At a 50% tax rate, the 1973 cost of accelerated depreciation was $1 billion in revenue foregone as compared with $0.5 billion in 1972, thus the $2 billion estimate of revenues foregone in 1977 is almost certainly conservative.

Over the post-war period the contribution of the corporate sector towards the financing of public services has considerably decreased. Following is a table showing how the financing of government has steadily been shifted from the corporate income tax to personal income taxes.

PERSONAL AND CORPORATE INCOME TAXES - CONTRIBUTIONS TO TOTAL FEDERAL REVENUES

($000,000)

	1950		1962		1974	
	$	%	$	%	$	%
1) Personal Income Tax	612	20.3	1,994	28.6	11,141	37.9
2) Corporate Income Tax	847	28.0	1,293	18.5	4,598	15.7
3) Total Revenue (Federal)	3,020		6,979		29,353	

Source: Statistics Canada - National Accounts.

The New Democratic Party believes that corporate tax rates should be re-examined to ensure that the corporate sector bears a fair share of the costs of public services. To the extent possible, small business taxes should be reduced. At the same time, a new system of taxing excess profits should be imposed to ensure that large corporations are not permitted to take unfair advantage of their size and market position. An excess profits tax is an essential element for the "post-control" period. One variation would apply a graduated tax on returns in excess of 20% return on equity. The federal government is currently using this profit as a return on equity concept to establish minimum acceptable profit levels under the Anti-Inflation Programme. There should be no objection to using the same concept to check excess profits.

Recommendations: The national standard corporation income tax rate should be returned to the 1972 level of 50%. This would increase revenues by about $1 billion annually.*

Preferential treatment for small businesses should be enhanced.

Effective excess profits provisions should be introduced to prevent excess profit taking by large monopolistic corporations.

* This estimate was derived from detailed taxable income information for 1973 in Statistics Canada's Corporation Taxation Statistics for 1973 to which the rate adjustments were applied. The resulting estimates were increased to 1977 by the same rate of increase as corporate profits as projected by the Conference Board of Canada of 37%.

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Investment Tax Credit

More recently, with the 1975 Budget, one more corporate tax break was added to the system - the 5% investment tax credit. Under this measure, in addition to the benefits available under the two-year fast write-off and low 30% federal corporation income tax rate, corporations are entitled to deduct 5% of the value of investment in buildings, machinery and equipment for use in manufacturing and processing activity or mineral or petroleum production as well as logging, farming or fishing from any federal income tax found to be payable. The federal government estimated the initial cost of this measure at $200 million - over and above the value of the corporate incentives and concessions discussed earlier.

No evidence exists to support the view that this particular measure has had any impact other than to add to the corporate treasuries at direct cost to the public sector. Certainly a report on its impact together with updated cost estimates would be most welcome. This is particularly the case with corporations operating with so much excess capacity.* In the meantime we can only hope that unlike many of its predecessor corporate rip-offs this one is permitted to lapse as scheduled on June 30, 1977 and is not extended indefinitely.

Recommendation: The 5% investment tax credit should be ended on June 30, 1977 as currently scheduled.

Inflation Accounting

In recent years, corporate spokesmen have been demanding a major new concession - a system of "indexing" for corporate taxation similar to the system introduced on the personal side in 1974. Businessmen argue that a portion of their recent massive profits have resulted from "artificial" increases in the value of their inventories as a result of inflation. They claim that this sort of "windfall" increase should be netted out before taxes are applied. Apparently the accounting profession is still divided on the merits of inflation accounting. However, since most accountants who will speak on the issue owe their livelihood to large corporate entities, it would not be too surprising to see a "consensus" in favour of inflation accounting in the near future.

Regardless of other arguments, the fact is that corporations at most pay tax on part of their current income in current dollars. Following is a table showing the relatively small percentage of current profits on which corporations pay tax.

* The latest available information for 1976 shows corporations operating at about 83% of capacity.

COMPARISON OF CORPORATE PROFITS BEFORE TAXES AND TAXABLE INCOME BY SELECTED CANADIAN INDUSTRIES, 1969 - 1974

Industry	Ratio of Taxable Income to Corporate Profits (%)					
	1969	1970	1971	1972	1973	1974*
Metal Mining	18.6	25.3	1.4	9.7	20.2	n/a
Mineral Fuels	5.7	2.5	9.3	31.4	35.1	n/a
Other Mining	4.6	22.5	18.2	31.4	27.6	n/a
Total Mining	12.6	20.3	6.0	22.3	25.3	n/a
Manufacturing	78.6	68.4	68.8	73.6	67.9	n/a
Construction	78.3	74.9	72.6	88.4	71.2	n/a
Wholesale Trade	87.9	86.5	85.7	89.1	87.0	n/a
Retail Trade	90.7	88.0	84.8	83.4	86.1	n/a
Finance	54.0	54.2	47.1	51.5	49.4	n/a
Services	83.5	68.6	75.4	84.2	74.9	n/a
All Industries	64.7	60.0	58.7	65.5	60.0	56.8

NOTE: Taxable income defined as current year taxable income before application of prior year losses. *1974 figure comes from Statistics Canada's Corporations and Labour Unions Returns Act Report (61-210), (for corporations with assets greater than $5 million). No industrial breakdown is available for 1974. Source: Statistics Canada's Corporation Taxation Statistics, 61-208.

Clearly, if corporations paid current income tax on all of their current profits as ordinary workers do, revenues from the corporate sector would increase by about two thirds or $3.5 billion in 1973* or in excess of $4.8 billion ** in 1977.

The federal government has not yet responded positively to this pressure for greater tax concessions, but there is reason to believe that changes may take place in the near future. The federal Finance Department has already assigned members of its staff to work (on a study team) with staff from the large corporations to assess the impact of such a system, and the Conservative Government of Ontario has also set up a special study group to review many of the same questions. Thus far, unfortunately, there has been little opposition to the idea of inflation accounting from the public - probably because relatively few people understand its implications. If inflation accounting is permitted for corporations, the ultimate effect will be a further reduction in corporate tax payments below current inadequate

* According to Statistics Canada's Corporation Taxation Statistics (61-208) almost $7 billion in corporate profits escaped income taxation in 1973. At a 50% tax rate this represents $3.5 billion in corporation tax revenue foregone.

** The 1973 estimate of $3.5 billion was increased by the Conference Board of Canada's projection of a 37% increase in corporate profits between 1973 and 1977.

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levels when taxes account for about 25% of profits and a corresponding increase in the degree to which individual taxpayers will have to make up the difference to support government services.

Recommendation: All discussions with corporations concerning inflation accounting should be postponed indefinitely or at least until corporations, like average workers, pay tax on all of their current incomes.

Resource Taxation

Resource corporations have always enjoyed a favoured position in the Canadian tax system. Many resource corporations - including the largest multi-national corporations - have traditionally paid relatively little or no federal income taxes. Special tax concessions have meant that the contribution of many of these foreign owned companies to Canada has been miniscule in comparison to the wealth which they have extracted from Canada and transported outside our borders.

The most recent statistics available for the 1972 and 1973 taxation years show that the so-called reforms implemented for 1972 were a failure insofar as resource corporations are concerned. As the following table shows, for the only two "post-reform" years for which Statistics Canada information is available, resource corporations paid income tax on barely one quarter of their profits.

COMPARISON OF CORPORATE PROFITS BEFORE TAXES AND TAXABLE INCOME, MINING INDUSTRY, 1972 and 1973
($000,000)

Industry	1972 Corporate Profits	1972 Taxable Income	1972 Taxable Income as a % of Book Profits	1973 Corporate Profits	1973 Taxable Income	1973 Taxable Income as a % of Book Profits
Metal Mining	335.3	32.5	9.7	1,280.7	258.4	20.2
Mineral Fuels	348.2	109.2	31.4	622.8	218.5	35.1
Other Mining	115.1	36.1	31.4	182.5	50.3	27.6
Total Mining	798.6	177.8	22.3	2,086.0	527.2	25.3

Source: Statistics Canada's Corporation Taxation Statistics, 61-203

Under real reform, resource corporations would be required to pay current income tax on all their current income. This would involve the termination of depletion allowances - which permit resource corporations to deduct $4 from income for tax purposes for every $3 in expenditure. Depletion allowances are particularly anomalous in that the multinational resource corporations are taking their tax savings acquired through the depletion allowance and using it to finance new operations - oftentimes as in the case of Noranda Mines' proposed $300 million investment in Chile - not even in Canada but in countries which favour oppression, torture and the complete disregard for human dignity.

In our view, if any provisions for depletion should be made, they should be set aside in special funds to help the workers and others in resourced-based communities who suffer the real hardship when the resource base is depleted. There is no need to provide such assistance to the resource company which simply leaves the community to die and rushes off to exploit some other profitable opportunity.

In addition, true reform would involve the termination of the accelerated write-offs of exploration and development expenses - these expenses should be written off no faster than the expenses are shown in the company's books. It would also involve appropriate specific recognition for the deductibility of provincial resource charges within acceptable limits.

If resource corporations had these special wasteful incentives withdrawn and were asked to pay current tax on all of their current income - no more and no less - corporate tax receipts would increase by well in excess of $1 billion per year.*

Of particular concern in the resource tax field is the fact that the federal government is unable - by its admission - to police effectively the transfer of profits and jobs from Canada to foreign (usually U.S.) head offices. The former Minister of Revenue Canada, Bud Cullen, estimated the annual losses to the Canadian tax system at over $1.6 billion per year under transfer pricing.** In other words, the federal government is not even enforcing its own inadequate tax laws.

* Statistics Canada's Corporation Taxation Statistics (61-208) records that some $1.6 billion in resource profits escaped income taxation in 1973. This was increased by the general increase in corporate profits projected by the Conference Board of Canada between 1973 and 1977 of 37% to which a 50% tax rate was applied. Since no specific account is taken of huge profit increases resulting from the oil price increases in recent years, the estimate is conservative.

** Under transfer pricing, multinational firms operating in Canada purchase commodities from foreign sister corporations at a price in excess of the "market place price". The reverse also occurs - the Canadian corporation sells to its foreign sister at a price less than the "market place price". In both cases, the result is that the profits are diverted from Canada to a sister corporation operating elsewhere and Canadian tax receipts are reduced.

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SYNCRUDE FINANCING *

		Millions of Dollars
Estimated Cost		2,000
Direct Government Share		600
Oil Companies' Gross Share		1,400
Minus: Other Public Sector Assistance		872
	Millions of Dollars	
a) Loan from Alberta	200	
b) Value of Write-off of $1,400 million from the corporate taxable income of presently producing oil wells		
1) at 25% federal rate	350	
2) at 11% provincial rate	154	
c) Value of "Earned" Depletion of 1/3 of $1,400 million ($467 million) from corporate taxable income of presently producing oil wells		
1) at 25% federal rate	117	
2) at 11% provincial rate	51	
	872	
Maximum Net Outlay of Oil Companies		528
Total Public Sector Outlay:		1,472 and the oil involved

Equity	600
Loan	200
Tax "Incentives"	672
	1,472

* Based on arrangements in effect as of April, 1975.

Recommendations: The depletion allowance should be withdrawn. Alternatively, the public sector subsidy represented by depletion should be set aside in a fund to assist workers and communities adversely affected by the depletion of mineral reserves.

- Accelerated write-offs of exploration and development expenses should be discontinued.
- Specific recognition should be given to specific resource charges imposed by the provinces within some reasonable limits.
- Resource corporations should be required to pay current tax on all of their current income.
- Steps should be taken to improve Canada's tax administration to curb tax losses arising from transfer pricing.

- Canada should develop a comprehensive energy policy to plan for and meet future energy requirements. Any assistance thought to be required by multinational oil companies should be strictly in the form of grants from government which would be publicly discussed and accounted for.

The Future - The Need for Real Reform

The New Democratic Party believes that the national tax system would serve as one of the major mechanisms for ensuring that income is distributed among Canadians on an equitable basis and that public goods and services are financed equitably. The tax system should be structured in such a way that it is based on people's ability to pay. No one objects to paying his or her share of the costs of government services, but that share must be calculated fairly and in relation to people's incomes and family circumstances.

To the greatest degree possible, the New Democratic Party believes income tax should be the primary basis for financing government. This tax should be restructured so that all forms of income are treated on the same basis. Tax credits should replace tax exemptions and these credits should be indexed to grow in value at least as quickly as the cost of living. Maximum marginal rates should be restored to the pre-1972 level with major rate reductions for most middle and low income earners. These changes would involve a fundamental redistribution of the tax burden in Canada towards a truly progressive system.

It may be worth noting that we have no precise estimates of the funds which would become available for redistribution through the implementation of these steps towards true reform. Hopefully the Minister of Revenue Canada will provide Parliament and the people of Canada with up to date estimates of the financial benefits which could accrue to the vast majority of Canadians under meaningful reform. We estimate that the benefits accruing to all Canadian families with incomes of under $15,000 can be increased by at least $500 under meaningful reform.

On the corporate side, first, all corporations should be required to pay current tax on all of their income. This would involve the elimination of fast write-offs, accelerated capital cost allowances and other corporate incentives. A more rational corporate income tax system along these lines would raise an additional $4.8 billion annually - more than

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sufficient to finance the reduction in the old age pension age to 60 which the Minister of National Health and Welfare recently estimated would cost about $2 billion - $2 billion which the federal government claims not to have (and doesn't because of persistent corporate giveaways). Second, the corporate tax rate should be restored to the pre-1972 level of 50% this would involve an increase in the general rate from 46% to 50%, the manufacturing and processing rate from 40% to 50% and the 5% investment credit should be withdrawn. This would increase federal revenues by $1 billion. Third, an excess profits tax using the concepts developed by the Anti-Inflation Program should be introduced to tax returns in excess of 20% on equity. If corporations adopt and maintain responsible pricing practices, this measure would yield no revenues.

Finally, top priority should be assigned to the task of integrating the income tax and transfer payments systems in Canada to ensure that duplication of bureaucracy is eliminated, to ensure consistency and equity in the definitions of income, and to remove the welfare stigma for people who legitimately require income support and supplementation assistance. Such a system would incorporate a strong work incentive and would be structured in such a way as to provide special assistance to the thousands of men and women in Canada who are now employed, but who are not paid well enough to support their families at an acceptable standard. This would be financed by the additional funds possible through real reform.

The federal government has indicated that it is prepared to consider measures along these lines, but its promises have not been matched with a financial and philosophical commitment. A New Democratic Government would make tax reform and the integration of the income tax and income transfer systems one of its highest priorities.

* * * * * * *

Energy

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Submitted by: James Laxer

P E T R O L E U M

A Discussion Paper

SECTION I

Is Self-Sufficiency Possible?

No issue has been more troubled or more problematic during the 1970s than the question of the extent of Canada's producible reserves of oil and natural gas. Prior to 1973 the National Energy Board and the Department of Energy Mines and Resources were optimistic about the extent of Canadian petroleum reserves. On the basis of estimates submitted by the Canadian Petroleum Association and the major petroleum companies, the Department of Energy, Mines and Resources issued a long term forecast of Canadian oil and gas producibility. The forecast, contained in the Department's June 1973 Report, An Energy Policy for Canada, predicted that Canada could expect to have a long term capacity to produce both oil and natural gas well in excess of Canadian domestic demand. The Report provided two forecasts for the development of domestic oil producibility for the remainder of the century: the first forecast predicted a growth of producibility to 10 million barrels of oil a day; the second forecast predicted a growth of producibility to six million barrels a day. The two estimates differed significantly respecting conventional oil. Estimate I predicted that Canada's convention oil reserves, less proven reserves, stood at 118 billion barrels. Estimate II dropped this figure to 83 billion barrels.

The key difference in the two estimates concerned conventional oil reserves in the Canadian Arctic, with Estimate II predicting a northern reserve of 28 billion barrels, less than half of Estimate I, which predicted 70 billion barrels. This drop was somewhat offset by the upward revision of the east coast potential from 42 to 50 billion barrels.

Of key importance was the fact that both Estimate I and Estimate II forecast only small remaining unproven conventional reserves in Canada's traditional petroleum production centre, the Prairies.

The 1973 report also presented two forecasts of natural gas reserves which ranged between 712 trillion cubic feet and 835 trillion cubic feet. These highly optimistic estimates, based overwhelmingly on unproven frontier sources, told Canadians they could expect to have recoverable natural gas that would supply them for between 350 and 400 years at the 1972 level of output.

The report also made a forecast concerning the Alberta oil sands. It projected a recoverable reserve of 301 billion barrels from the oil sands, 65 billion barrels through existing strip mining techniques and 236 billion barrels through "in situ" recovery methods, not yet developed.

In its long range forecast, the 1973 energy report predicted a moderate to large surplus for Canada in both oil and natural gas, a surplus that could be expected to last to the middle of the next century. Based on the estimates presented in the 1973 report, it was reasonable to conclude that Canada could easily sustain its position of self-sufficiency for both oil and natural gas.

In September 1973, at a time of high inflation, the federal government froze the price of domestic crude oil at $3.80 a barrel. Following this, in two jumps, the world price moved to $11.00 a barrel. The price change at the world level stimulated a frenzy of new forecasts of Canadian oil and natural gas producibility on the part of the major petroleum companies. In response to unaccustomed warnings of potential shortages of petroleum in Canada, the National Energy Board held a round of hearings on oil producibility in the spring of 1974. A new report, issued in October 1974, based on the new estimates of the major petroleum companies, presented a picture starkly different from that presented in the 1973 report. The new report forecast that domestic oil production would be unable to meet demand west of the Ottawa valley by 1982. The report pointed to the inevitability of Canada's return to the status of a net importer of oil within a very short period of time. On the basis of the report the federal government determined to phase out oil exports to the United States in stages. As a result of the decision, Canada became a net importer of oil in mid 1975.

The new estimates of petroleum producibility have been a major factor in the raising of the price of domestic oil from $3.80 a barrel to $9.75 a barrel (in a series of stages), and the commitment to move Canadian domestic prices to the world level, or as decided at the federal-provincial conference in the Spring of 1977, to the American price.

Since the 1974 NEB report, two further reports on petroleum supply have been issued by the Department of Energy, Mines and Resources. Both reports have continued the pessimistic estimates trend begun in the 1974 report. The latest report, issued in the spring of 1977, now forecasts remaining conventional oil reserves at between 25 billion barrels (90 per cent probability) and 43 billion barrels (10 per cent probability). Natural gas is the results of drilling experience by the petroleum industry since 1973.

Assessing the credibility of a change of estimates crucially influenced by the major petroleum companies involves an evaluation of the role of the petroleum industry in the world price change which occurred in 1973. The major petroleum companies in Canada are of course, the subsidiaries of the major international petroleum companies which dominate the world oil business.

In assessing the role of the major petroleum companies in bringing about the change in world oil prices in 1973, we will limit our discussion to a brief resumé of the thesis on the subject presented in a study published by Dr. John Blair in December 1976. The study, entitled The Control of Oil, was the product of a life-time of investigation by Dr. Blair of concentrations of economic power. In his study he demonstrates that the major petroleum companies have for decades operated a co-ordinated system of control of markets and supply that has involved the blocking of competition and the prevention of surplus or distress oil supplies coming on a free world market to undercut their price structure.

Blair traces the relationship of the seven major petroleum companies (five of them based in the U.S. and two in western Europe) to the development of the supply and pricing of world petroleum during the 20th century. Examining the interlocking directorships that have linked the petroleum majors and exploring a series of agreements among the companies, Blair analyses the mechanisms by which the majors operated an orderly system of petroleum production growth to protect their market control and the international petroleum price structure.

It is a tribute to their capacity for remarkable precision in gearing production in many different countries to a targeted rate of growth that they achieved a steady increase in output of just under 10 per cent a year during the period from the early 1950s to the beginning of the 1970s.

Then, during the late '60s, the position of the majors began to erode in the face of the uncontrolled flow of new Libyan crude oil onto the world market and the growth of private brand gasoline retailers in the United States.

In the short space of three years, both problems were resolved for the major companies. The new Libyan regime of Colonel Qadaffi cut his country's oil output, restricted the independent companies that had been producing its oil, and substituted the goal of higher crude prices for volume of output. In the U.S. a remarkably co-ordinated downturn in the refinery operations of the major oil companies created an artificial shortage of petroleum products and resulted in a drastic curtailment of supply to the private brand gasoline retailers who had been competing with the majors.

Without the excess production of Libya and with petroleum products in tight supply in the U.S., the stage was set for the world oil price explosion.

What followed were the remarkable events of the fall of 1973: two days after the outbreak of the Middle East war, OPEC demanded that the price of oil be doubled; a few days later came the Arab countries' announcement that they were cutting production by five per cent a month and embargoing the U.S. and Holland to exert pressure in their attempt to defeat Israel.

The result in the U.S. was a brief but intense panic. Motorists waited in long line-ups for fuel; industries and schools agonized about potential shortages. Then, suddenly, it was all over. Following a second doubling of the price of oil in January 1974, the flow of oil was resumed.

Blair concludes that for 1973 as a whole the major oil companies kept OPEC production almost exactly in line with the historic rate of increase both because they had foreseen the crisis and produced a surplus prior to October 1973,and also because the embargo involved a high ratio of rhetoric to actual production cuts.

"By now, the commonly accepted explanation for the oil price explosion of October 1973 to January 1974 has become firmly embedded in folklore," states Blair. "Through incessant repetition in every medium of communication, responsibility has been effectively transferred to rulers of distant and undeveloped lands whose attitude toward the U.S. ranges from casual indifference to belligerent hostility.

Today's high prices are invariably traced back to the 'Arab embargo' and the resultant 'shortage'. In reality, the embargo occasioned only limited and temporary dislocations. If attaining the historical growth rate of 9.5 per cent is regarded as adequate to meet the demand, there was no shortage of OPEC production in 1973."

Having shocked the world economy with their quadrupling of the price of oil, the oil companies and OPEC were faced with recession and with first stagnating, then declining markets for their product.

This was the critical testing time for the new price. Declining markets could have led to excess production which could have led to the collapse of the cartel. Blair demonstrates that it was the major oil companies gearing production precisely to the level necessary to maintain the new price that saved OPEC during 1974 and 1975.

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Forced to share the profits on crude oil production with the OPEC countries, the oil companies made a shift in their profit-taking 'downstream' to the level of refined products. Simultaneously, the companies targeted a new ratio of profit to shareholders' equity, from about 12 per cent to 16 per cent. In 1974, Blair demonstrates, the companies easily met their new target and Exxon and Shell maintained it even in the recession year of 1975.

This discussion, based on a study that draws heavily on the examination of the petroleum industry conducted by the U.S. Senate Committee on Multinational Corporations (the Church Committee), suggests that there is a high probability that the drastic alteration of reserve estimates made by the Canadian subsidiaries of the major petroleum companies was related to the international pursuit of higher oil prices evident in the behaviour of the companies.

That the Canadian petroleum companies changed their behaviour very suddenly during 1973 can be illustrated by noting that in Imperial Oil's 1972 annual report (published in the spring of 1973), the company's chief executive officer, W.O. Twaits, made the following statement regarding petroleum reserves:

"In the current debate, the export of Canada's energy resources is being questioned; in effect, we are being urged to 'bank' our petroleum resources. Canada is not in any way deficient in energy resources. Our present reserves, using present technology, are sufficient for our requirements for several hundred years."

Later in 1973 and in the years since then, Imperial has relentlessly pressed the argument that Canada faces serious looming shortages of both oil and natural gas.

If it is reasonable to conclude that the sudden change in estimates made by the major petroleum companies in Canada in 1973 was related to their world wide activities, this still does not tell us in which direction their estimates misled Canadians. It does not tell us whether the pre-1973 estimates were excessively optimistic or whether the post-1973 estimates were excessively pessimistic, or both. Under these circumstances, we have little choice but to adopt the prudent course and to assume that the present pessimistic estimates may well be accurate and to plan for the future on the basis of such estimates. While all of the subsequent discussion in this paper is based on the assumption that the present estimates are accurate, the issue of the change of reserve estimates in Canada in 1973 is one that remains vitally important. It is an issue that can only be resolved through a thorough public investigation.

(2) Assumptions concerning demand for oil and natural gas in Canada.

The most recent federal government projections for growth in oil demand in Canada were summarized in a discussion paper that was the basis of the federal government's position at the federal-provincial meeting on the price of oil held in the spring of 1977. The paper stated:

"In Canada consumption grew by 5.5 per cent between 1963 and 1973 and has remained relatively constant for the last four years. The oil demand we have used for 1990 -- 2.7 million b/d is from the Energy Strategy Paper (p.55) high price scenario -- half way between the "High" and "Low" economic growth estimates. It results in a year compounded growth rate of 3.2 per cent and a 1985 demand of 2.4 million b/d. Our target is to reduce the 1985 demand to 2.1 million b/d and our imports to 700,000 b/d (as compared to 1985 estimated imports of 1.1 million b/d if we do nothing)."

The forecast in the federal government position paper was based on the estimates contained in the 1976 report of the Department of Energy, Mines and Resources entitled An Energy Strategy for Canada. In the 1976 report, the range of growth rates in demand for oil from 1976 to 1990 was from 2.6 per cent per year to 3.8 per cent a year depending on the price of domestic oil and the nation's economic performance.

For natural gas, the report forecast a range of possible demand growth between 1976 and 1990 of between 4.3 per cent a year and 5.5 per cent a year depending on price and the nation's economic performance.

(3) The technological and cost barriers to achieving self-sufficiency.

Taking into account the projected decline of conventional crude oil production from the western sedimentary basin between 1976 and 1990 and the cost of bringing onstream new sources of petroleum, the 1976 EMR report forecast a range of producibility estimates for the years 1980, 1985 and 1990. For 1980, the report assumed that whether a low or high price was adopted, producibility would be 1625 thousand barrels a day. For 1985, the report forecast that with a low domestic price, producibility would be 1310 thousand barrels a day while a high price would yield 1410 thousand barrels a day. For 1990, the report forecast that with a low domestic price, producibility would be 916 thousand barrels a day, while a high price would yield 1680 thousand barrels a day. The difference between the low and high price scenarious presented in the report was based on the assumption that high prices would lead to the development of significant new capacity in the oil sands and in the frontier areas.

The value of these forecasts was severely limited by the fact that the report did not contain cost estimates for production in conventional areas, in the oil sands or in the frontier areas. It was therefore impossible to know what assumptions the department was making about the needed level of return on investment to the petroleum companies in forecasting different responses to low and high prices for domestic petroleum.

Based on its assumptions concerning the response of the petroleum industry to a movement of Canadian petroleum prices to a higher level, the federal government, in its position paper presented to the federal-provincial conference on petroleum prices in the spring of 1977, forecast that Canada would require a net level of oil imports of half a million barrels a day by 1980, of 1.1 million barrels a day by 1985 and of 1.8 million barrels a day by 1990.

In the case of natural gas, the department's 1976 report forecast growing shortages in meeting domestic demand plus long term export commitments between 1976 and 1990 on the basis of a low price scenario. Assuming a high price scenario, the report forecast a potential surplus in natural gas production which would reach 1322 billion cubic feet per year by 1990.

(4) <u>Conclusion</u>

The federal government has concluded that Canada is incapable of achieving self-sufficiency in oil production between now and 1990 regardless of the price of oil adopted. It assumes that high prices will stimulate the industry to increase sources of domestic petroleum significantly while also restraining demand. In the case of natural gas, the federal government has concluded that Canada is capable of meeting both domestic demand and existing export commitments only if a higher price is implemented.

In assessing these conclusions concerning self-sufficiency, two factors are crucial; the credibility of the change in reserve estimates following the 1973 explosion in the world price of petroleum; and the level of return on investment necessary to allow new energy projects to proceed.

The federal government's conclusions rest on these two rather shaky assumptions. Despite this, we shall proceed in the next section of this paper to examine the impact of petroleum trade on Canada's balance of payments on the assumption that the federal government's forecasts are accurate.

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SECTION II

Impact of Petroleum Trade on Canada's Balance of Payments.

For a brief period in the early seventies it appeared that Canada's thriving petroleum industry would save the country's traditional resource based trade strategy for at least another decade, and perhaps until the end of the century. Petroleum companies' executives waxed eloquent on the vast untapped potential of Canadian oil and natural gas reserves and counselled the government to look forward to large petroleum trade surpluses. These surpluses, the oil companies assured the government, would allow the country to go on basing its trade strategy on the sale of resources and the importation of manufactured goods.

The era of Pierre Trudeau as Prime Minister has seen the brief rise and sudden fall of the Canadian petroleum industry. Canadian oil exports to the U.S. had jumped dramatically in the aftermath of the 1967 Arab-Israeli War, the summer before Trudeau took office. Just as the Middle East crisis of 1956 had alerted American policy makers to the strategic value of Canadian oil, so too did the crisis of 1967. During the six years between 1967 and the next Middle East war in 1973, the Canadian oil industry became a crucial factor in Canadian trade strategy.

In the years following 1960, Canada switched from being a net importer to a net exporter of energy. In 1960 Canada's deficit in energy trade amounted to $300 million; by 1972 this had changed to a $634 million surplus. The turnaround in Canada's energy trade was largely accounted for by the huge growth in Canada's oil and natural gas exports. Between 1962 and 1972 Canada's oil exports quadrupled from 252 thousand barrels of crude oil and oil products a day to 1144 thousand barrels. During this same ten year period, imports of crude oil and oil products only doubled from 452 thousand barrels a day to 909 thousand barrels. During these same years natural gas exports trebled from 343 billion cubic feet to 1,012 billion cubic feet. (Natural gas imports are inconsequential). Canadian exports of oil and natural gas have gone entirely to the United States, while oil imports have come mainly from Venezuela and the Middle East.

During the early 1970's, Canadian oil and natural gas exports moved ahead of wheat in dollar value and constituted Canada's most important raw material export. In 1968, after exports and imports had been counted, Canada's surplus in its crude oil trade amounted to only $72 million, compared with a $684 million surplus in wheat. In 1974 this surplus in oil trade

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had grown to $1 billion. This 1974 oil surplus accounted for well over half of the nation's surplus in its merchandise trade of $1,698 billion. Without the oil surplus, Canada would have had an overall merchandise trade deficit in that year.

In mid 1975, however, Canada once again became a net importer of oil, so that its surplus on crude oil trade in that year sank to $100 million. This large turnaround in the nation's oil trade contributed significantly to the record current account deficit in 1975. By 1985, if current projections of the department of Energy, Mines and Resources are correct, the nation will have a $4.5 billion annual deficit in its oil trade.

Offsetting the projected oil trade deficit, according to the 1976 report of EMR, could be a trade surplus in natural gas of $2 billion and of coal, uranium and electricity of under $2 billion. These projections are based on the assumption of massive investments to develop these energy sectors to allow for high levels of exports.

The return of Canada to the status of a net importer of oil in 1975 was an unexpected development for the Canadian government. Based on the optimistic oil reserve projections of the late 60s and early 70s, the federal government assumed that Canada's oil trade would earn a moderate to large surplus and that the energy sector as a whole would be a major source of strength in Canada's international accounts. The unexpected turnaround in Canada's oil trade has been a major factor in the severe deterioration of the condition of the Canadian economy since 1974.

By the mid 1970s, Canada's economy was in a state of chronic malaise. Faced with inflation and recession, common to all industrial countries, Canada also confronted nagging difficulties with productivity and trade that were symptomatic of underlying structural problems with the nation's economy.

The most visible sign of the breakdown of Canada's branch plant economic strategy was the sharp deterioration in Canada's external trade balance during the 1970s. In 1975 Canadians imported $10 billion more in manufactured goods than they exported. This deficit, amounting to $450 for every Canadian, was unique for any industrial nation. What's more, the deficit in Canada's manufacturing trade quadrupled between 1970 and 1975. The change in the pattern of Canada's exports during this same half decade was as important as the change in the export pattern. In 1969, 73.2 per cent of Canadian exports were made up of end products (fully manufactured goods) and semi-fabricated products (raw materials that had been partially processed). By 1975, end products and semi-fabricated products had declined to 59.7 per cent of Canadian exports. Completely unprocessed raw materials and food and tobacco products had increased dramatically from 26.5 per cent of Canadian exports in 1969 to 39.6 per cent in 1975.

Also crucial was the highly concentrated character of Canada's end product exports. In 1973, 64.8 per cent of Canada's exports in fully manufactured products occurred in the auto assembly and auto parts industry. Taking out Canada's trade in automotive products which fall largely under the special case of the Canada-U.S. auto pact, the proportion of Canadian trade made up of fully manufactured goods in 1973 was only 14 per cent. This was not at all the trade characteristic of an advanced industrial nation. (In 1971, 70 per cent of U.S. exports were fully manufactured goods.) Furthermore, the auto industry, far from being a glowing area of health in the Canadian trade situation, was the area of Canada's most severe deficit. In 1975, Canada's deficit in its automotive trade with the United States was $1.9 billion; in 1976 $1 billion.

But, under the economic system of the postwar period, Canada's steep deficit in its trade in manufactured goods has always been offset through very high exports of resources. In 1970 Canada's merchandise trade balance overall stood at a surplus of $3 billion. In that year the country experienced a $2.1 billion dollar outflow to service foreign investments in the country. This left an overall surplus on current account (including both merchandise trade and capital service flows), of $953 million.

However, by 1975, the rise in manufactured goods imports was so large that it was not fully offset by resource exports. Canada's merchandise account showed a deficit of $795 million. In 1975, the servicing of foreign capital led to a further outflow of $4.7 billion, resulting in a total current account deficit of $5.5 billion.

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SECTION III

Income from sales of petroleum

The following table shows expected gross revenues and revenue sharing for the next 12 months under four price increase scenarios.

REVENUE SHARING

(Estimates for 12 months starting July 1/77) - $MM

	Case 1	Case 2	Case 3	Case 4	Case 5
Prices (a) crude oil	9.75	11.00	11.25	11.50	11.75
(b) natural gas [1]	1.03	1.25	1.29	1.33	1.37
Gross Revenue	9060	9860	10010	10155	10320
Operating Costs	865	865	865	865	865
Net Operating Income	8195	8995	9145	9290	9455
Provincial Royalties	2990	3320	3380	3440	3510
Freehold Royalties	160	175	180	180	185
Land Payments	320	320	320	320	320
Income Taxes (Prov.net)	140	180	185	195	200
Income Taxes (Federal)	1250	1445	1480	1515	1555
Industry Cash Flow [2]	3335	3555	3600	3640	3685
Industry Investment[3]	2090	2290	2340	2390	2440
Synthetic Investments[4]	450	450	450	450	450
			Compensation Calculations		
Export Tax	398.2	297.7	277.6	257.5	237.4
Gas Excise Tax	550.0	550.0	550.0	550.0	550.0
Compensation	979.2	727.1	676.6	626.2	578.8
Balance	(31.0)	120.6	151.0	181.3	201.6

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SECTION IV

Statement of Objectives

At present Canada does not have a coherent petroleum policy that serves the interests of Canadians. Instead of a policy that is integrated into an overall industrial strategy, national policy has amounted to little more than a series of responses to pressures generated by the major petroleum companies in Canada. These companies, committed to the global priorities established by their parent corporations, have been the main source of information and of political pressure upon which federal government policy has been established.

The major petroleum companies have operated the most successful cartel in history, cooperating with each other on an international scale to

1 Wellhead price of natural gas sold domestically; no increase in current export price.
2 Excludes freehold royalties and land payments.
3 Excludes land payments.
4 Tax effects of these investments excluded.
Source: Federal government position paper to federal-provincial conference on petroleum prices, spring 1977.

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achieve a division of petroleum supplies and markets that is to their mutual benefit. The Canadian petroleum industry has been completely dominated by the major petroleum companies. No vertically integrated petroleum firm in Canada is domestically owned and controlled. The Canadian interest has been expressed through the regulatory activities of the National Energy Board which was established by Parliament in 1959. The record since 1959 has demonstrated, however, that the NEB has served more often to legitimate the objectives of the major petroleum companies than to act as a serious and active force in establishing priorities for Canadian petroleum development. During the 1970s the result of this pattern of cartel control of the Canadian petroleum industry has been economic chaos. The change in petroleum reserve estimates since 1973 has turned Canadian economic strategy upside down and has been a major factor in motivating the federal government to establish economic controls.

A coherent national petroleum policy should have the following elements:

1. That energy, including oil and gas, should be considered a public utility, and public policy concerning regulation and ownership should reflect this.
2. A commitment to conduct a thorough public investigation of the behaviour of the major petroleum companies in Canada during the 1970s with particular attention to the change in oil and natural gas reserve estimates since 1973.
3. An undertaking to expand the Canadian public presence in the nation's petroleum industry by making use of Petrocan to establish public ownership of the largest petroleum corporation in Canada, Imperial Oil.
4. Conceiving of petroleum policy as an aspect of industrial strategy so that the pricing of petroleum, the pacing of petroleum development projects, and the use of the rents collected by the public sector from the petroleum industry are established with reference to a coherent programme of Canadian industrial development that takes account of the need to overcome regional underdevelopment in various parts of the country as well as the need to compensate the petroleum producing provinces fairly for the sale of their resource.
5. A commitment to establish a serious programme of energy conservation, particularly in the area of gasoline use for transportation and an undertaking that renewable energy sources must be developed as a matter of high national priority.

6. A recognition that in northern Canada major energy projects must not be undertaken prior to the just settlement of the land claims of the native peoples.

SECTION V

Strategy

(1) Petroleum Pricing

Domestic oil and natural gas prices should be set to reflect the following factors:

(i) The cost of producing oil and natural gas and the cost of developing new sources of petroleum to replace supplies being used;

(ii) the cost of alternative, and particularly renewable energy sources, which must bear the burden of our energy load in the future;

(iii) the need to compensate the governments and people of the petroleum producing provinces fairly for the sale of their natural resource;

(iv) the need to provide a fair rate of return for capital invested in petroleum producing activities;

(v) the desirability of keeping Canadian oil and natural gas prices as low as possible to allow Canadian consumers and Canadian industries to benefit from the use of the nation's resources.

(2) Petroleum Trade

According to the estimates of oil and natural gas reserves now accepted by the federal government, Canada will remain a net importer of crude oil until at least 1990. Developing domestic sources of petroleum where prices can be comparable to those available through imports should be a matter of high national priority. Canada should recognize that its supplies of energy resources may be sufficient for domestic use but do not appear to be sufficiently large in extent to justify their export. Canada should phase out oil and natural gas exports as rapidly as possible with due consideration for the interests of those markets now dependent on Canadian supplies.

(3) Technology

At present, technology being developed by the petroleum companies in Canada becomes the property of their parent companies. As a result of this situation, new technology being developed to carry out the development of petroleum supplies in frontier areas, in the oil sands and heavy oils, is often ending up under the control of foreign petroleum companies even though large amounts of public investment and tax incentives are involved in the

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projects. This situation is intolerable. Public investment must bring with it an assurance that major petroleum projects generate technology which is controlled in Canada.

(4) Investment Priorities

(i) Northern gas pipelines - At present Canadians are being asked to consider a number of alternative projects by which Alaskan and Canadian arctic natural gas can be shipped to southern markets. These include the Canadian Arctic Gas proposal to build a Mackenzie Valley natural gas pipeline to ship Alaskan and Canadian natural gas to southern markets. Additional proposals include the Foothills project, the Alcan project and the Polar Gas project. In approaching these proposed projects, the following general considerations should apply:

1. No northern pipeline should be built until a just settlement of native land claims has been reached.
2. No northern pipeline should be built as long as conventional natural gas reserves from western Canada can meet national demand.
3. Northern natural gas should not be developed for export, since the cost of development will direct capital investment on a very large scale into such projects and away from alternative industrial development which could more positively affect Canada's balance of payments.
4. Any eventual decision to agree to the construction of a pipeline solely for the purpose of moving Alaskan gas to American markets (Alcan) should only be made provided that the land claims of Yukon native people are satisfactorily met and that in return for granting a right of way to the United States, Canada is released from its natural gas export commitments.

At present the crucial question in determining whether a northern pipeline ought to be built is whether there is sufficient gas in traditional producing areas to meet Canadian demand for the present and the middle range future. The 1977 report of the Department of Energy, Mines and Resources on oil and gas reserves estimated that the remaining proven reserves of western Canada for natural gas amount to 59 trillion cubic feet, with potential reserves much larger than that. Of considerable significance is the fact that since 1974, in response to the much higher profitability of producing natural gas, the petroleum industry has been exploring vigorously for natural gas in western Canada. The life index for natural gas has stopped falling and new discoveries in western Canada have exceeded those recently made in the Arctic. It is probable, based on the information now available, that no northern gas pipeline is presently needed. Under such circumstances, any decision to proceed with a northern gas pipeline in the near future would be detrimental to the concept of a balanced industrial strategy for Canada.

(ii) Oil Sands and Heavy Oils - Based on present federal estimates of Canadian oil reserves, both the oil sands and the heavy oils will be a crucial feature in meeting domestic oil demand. Oil sands and heavy oil projects can only be undertaken with a high degree of public investment. In future projects, the federal government and the producing provinces should avoid arrangements of the Syncrude kind which involve large scale public investment while control of the project and of new technology remain in the hands of the private petroleum companies. Future projects should proceed on the basis of public control of the ventures.

(5) Conservation

A serious commitment to energy conservation must be an essential part of a new energy policy for Canada. Features in a conservation programme should include:

1. A serious effort to reduce the use of gasoline in transportation both by developing new standards for size, materials and efficiency in automobiles, and by implementing public transportation policies that are geared to maximal efficiency in energy use.
2. A major programme to encourage the use of renewable energy sources for the heating of homes, factories and public buildings.
3. A thorough study of industrial strategy to determine which industries are appropriate to Canadian energy availability.

Mineral Resources

CANADIAN MINERAL RESOURCES: TOWARD A NEW DEVELOPMENT STRATEGY

The Canadian mineral sector, comprising activities related to extraction, processing and fabrication of non-fuel mineral products, is an important part of the national economy. As of the early seventies, the sector accounted directly for almost 9 per cent of new capital investment in the country, as well as indirectly shaping a good deal of Canadian transportation investment; more significant, perhaps, the sector accounted for over 25 per cent of Canadian merchandise export earnings. Moreover, present government forecasts suggest that this mineral output may triple by 2,000, involving new investments of well over 55 billion.

The scope of this activity gives Canada a very major role in the international trade of most minerals, and also means that the wide fluctuations which occur in world mineral prices have a significant impact on this economy. The extent of Canadian mineral production is summarized in Table One; that table also indicates Canada's reliance on export markets, and the importance of Canada's contribution to world production and trade of our leading commodities.

Devising the best possible development strategy for this sector is complex and difficult, because of the number of considerations which must be taken into account. Mineral production is, for instance, inherently risky in the Canadian context because of (a) the limited information which producers have on the richness of any given ore deposit when mining extraction begins, and (b) the reliance of Canada on a world market in which mineral prices vary so much.

These risks, plus the importance they give to better technological knowledge and worldwide marketing links in reducing exploration and development costs and market price uncertainties, have encouraged the emergence of a few large multinational firms as Canada's dominant producers. We should not assess mineral extraction in isolation. The economic opportunities which mineral resources offer for processing and manufacture can be the basis for new employment and incomes for Canadians. Successful strategy will have to see that we seize those opportunities.

At the same time, the consequences of an unsuccessful mineral strategy need to be stressed. If our rate of mineral extraction is too rapid it could hurt much of our manufacturing industry because they will then have to rely on high-priced mineral imports in the future. Excessive extraction rates can also lead to serious environmental damage. All of these considerations are complicated by the regional concentration of much mineral

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production and export (asbestos in Quebec, potash in Saskatchewan, gypsum in Nova Scotia, nickel in Northern Ontario, etc.). There are conflicts between the provincial governments with their constitutional control over mineral production and the federal government with its dominance in international trade jurisdiction.

There are a number of different strategies which could be taken in this sector. Each would emphasize a somewhat different set of priorities and objectives. One could, for instance, stress the dangers of rapid rates of extraction, and shape your strategy to maintain Canadian self-sufficiency in minerals. One could stress the processing and manufacturing possibilities of mineral production, and then shape your strategy to achieve these employment goals.

The strategy of this paper has a different focus. It stresses the tax revenue gains which can be achieved in the mineral sector, and considers how to deal with the dominance of multinationals in the sector in order to realize those gains. Other objectives are not ignored, particularly the encouragement of processing and manufacturing, and the limitation of environmental damage. But the key priority of this strategy is raising tax revenues.

These revenues, in turn, can be the basis for dynamic new industrialization or for necessary social investments throughout Canada.

An overall economic strategy like this cannot, of course, be followed in isolation from other critical social concerns. In particular, the futures of those communities based on present mineral extraction, and the jobs, safety and security of those workers in the industry, would be core concerns in the way this sort of mineral strategy would be implemented. This paper does not treat these concerns directly, because it focuses on how the economic impact of the mineral sector can be meshed with other broad national priorities in <u>overall</u> economic planning. But that does not mean that in implementation of this proposed strategy community and workplace concerns would lose any of their central importance.

The first section of this study examines in detail the major policy considerations noted above:

(1) the nature of the international mineral trade;

(2) the multinational corporations' role in Canadian minerals;

TABLE ONE: CANADIAN MINERAL PRODUCTION PATTERNS

Major Commodity	VALUE OF OUTPUT (MILLION DOLLARS) 1972	1973	1974	1975	Percent Exported (1974)	Percent of World Production (1974)	Percent of World Market-Economy Trade (1973)
Nickel	717	785	974	1,110	93.9%	38.0%	39.2%
Copper	806	1,158	1,400	1,020	74.4	10.8	15.3
Iron Ore	489	613	724	923	78.1	5.6	16.7
Zinc	475	653	867	895	100.4*	27.5(b)	44.6 (ore)
Potash	136	151	309	347	97.3	22.6	40.0
Gold	120	186	264	276	n.a.	4.9(a)	n.a.
Asbestos	206	241	302	267	97.4	40.2	72.9
Silver	75	122	198	177	98.0	14.7	40.6 (ore)
Lead	114	125	134	152	87.2	11.9(b)	8.3 (metal)
Total for Metallic and Non-Metallic Minerals	3,466	4,465	5,740	n.a.			

Notes:
- * - indicates previous stockpile exports
- (a) - data from 1973
- (b) - data excludes communist production

Sources: Canadian Mineral Yearbook, 1974, preprints; Operators List 1: Metal and Industrial Mineral Mines in Canada (EMR, Ottawa, 1975), Page 4; Toronto Globe and Mail, Jan. 13, 1976, p. B1.

United Nations, Yearbook of International Trade Statistics, 1974, Vol. II

(3) the obstacles to mineral processing and manufacturing here;

(4) the dangers of depletion and environmental damage;

(5) federal-provincial conflict;

(6) and the potential for tax revenue gains from minerals.

The second section of the study draws out recommendations from this analysis for changes in Canadian mineral development strategy. As an appendix to this study are attached a number of more detailed industry and company investigations which formed the basis of our overall recommendations.

I - MAJOR POLICY CONSIDERATIONS

In 1974 the federal and provincial resources ministers of Canada issued a wide-ranging policy-discussion outline, Towards a Mineral Policy for Canada. There are unlikely to be serious quarrels with that outline's overall objective: "mineral policy must maintain its general goal of obtaining the best benefits for Canadians from minerals," But there should be severe criticisms of the current mineral policy of many Canadian governments which fail to achieve that goal.

This failure may be partly due to faulty analysis. But it is also due to weak political will in the face of strong pressures by the mining multinationals. The failure is everywhere evident in most of the policy areas which affect the mineral sector. Let us review these policy areas, and attempt to illustrate this failure.

(a) The International Mineral Market

Prices for minerals and metals fluctuate very widely in international trade, as indicated in Graph One. This instability flows from two main factors:

(1) The demand for minerals doesn't vary much in response to price changes, meaning that a large drop in prices won't lead buyers to purchase much more;

(2) The demand for minerals does vary a great deal in response to upswings and downswings in the business cycle in industrialized countries.

What these factors mean is that, given a fixed amount of mineral output offered on the international market, a business downswing will sharply reduce mineral demand. Prices then fall very considerably because minor price drops don't lead purchasers to buy much more than they would other-

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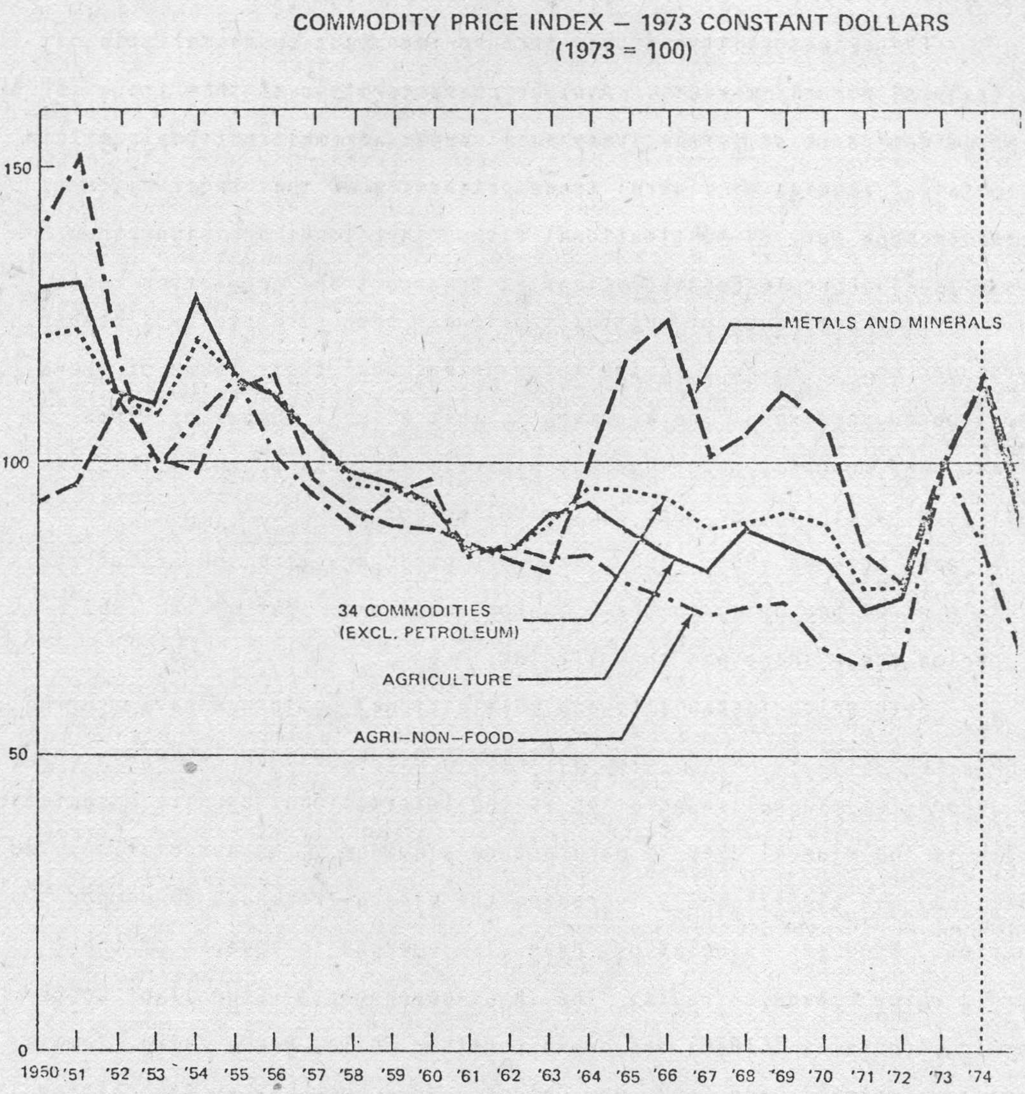
Graph One:



Source: World Bank. Commodity Pricing Study, 1975 wise have planned to. This effect is heightened if some producer countries, who are desperately dependent on the export revenues from their minerals, then increase their mineral output to keep their overall revenues from falling.

Price instability is therefore an important characteristic of international mineral markets. Another characteristic of this trade is the world dominance of a relatively small number of multinationals within it. Detailed studies of mineral trade patterns show that those patterns are shaped much more by multinational firms' investment decisions than by such usual economic considerations as transport and production costs.[1.]

This dominance of multinationals has been stressed by a number of producer countries as a factor which drives down their share of overall mineral-based earnings. The argument is that a small number of firms exercise near monopoly power and buy minerals at lower prices. This is illustrated by statistics such as the following:

In the years between 1955 - 1960, iron ore producers received 12% of the wholesale steel bar price in the U.S. for their ore. But by the 1967 - 1972 period their share had shrunk to 8%.[2.]

Both price instability and multinational dominance have spurred producer countries to co-operate together in producer associations. The most successful mineral association is the International Bauxite Association. Bauxite is the mineral used to manufacture aluminum. The association, led by Jamaica, has significantly increased the mineral revenues of member countries. Producer associations have also emerged in several of the minerals which Canada extracts. The Inter-governmental Council of Copper Exporting Countries (CIPEC) has drawn together Chile, Peru, Zaire, Zambia, Indonesia, Australia and Papua-New Guinea. More recently an Association of Iron Ore Exporting Countries (AIOEC) was inaugurated, with such members as Australia, Sweden, India, Venezuela, Brazil, Liberia, Mauritania and Peru. Such producer associations aim at one or more of the following objectives:

(1) to reduce price fluctuations through co-ordination of export strategies and/or the establishment of central buffer stocks of the commodity;

(2) to give producer countries more bargaining power with the multinationals through information exchange and policy co-ordination;

(3) to raise average prices received for mineral output through co-ordinated tax levies and/or supply management techniques.

Official Canadian government policy has been extremely negative to such producer associations, despite Canada's obvious interest in price stability and improved bargaining power with the multinationals. This is surely one of the more important failures in our present policy. In the copper and iron ore cases, Canada's significance as an exporter would give a considerable boost to the existing producer associations if we became members. In such minerals as zinc and nickel a Canadian initiative to form such associations would be decisive.

We stress that Canada should not encourage OPEC-style activiti_s that would fall heavily on poor-country importers. But the international mineral trade clearly is marked by serious price fluctuations. There are deep inequalities between large multinationals and many poorer producer countries. Canadian participation in producer associations - and in international price stabilization programmes involving non-producers - would contribute to a better international trade environment for Canada as an important mineral producer.

(b) The Multinationals' Role in Canadian Mineral Production

Multinational firms play the predominant role in Canadian mineral production and marketing. Over 50% of the assets of non-fuel mineral industries in Canada is controlled by foreign corporations. The great bulk of remaining assets is controlled by a handful of Canadian-based multinationals - Noranda Mines, Cominco, Texas Gulf and Inco (if the latter two are considered Canadian-controlled.) Table Two summarizes this concentrated control of multinationals for the most important commodities Canada extracts and exports.

Multinational firms operate to benefit their international structures as a whole. Therefore, any subsidiary of such a firm will have its activity and objectives integrated into that world profit strategy. That is the logic of multinational enterprise, and it is a logic that has been both rational and efficient for such firms.

There is no guarantee therefore that a multinational subsidiary operating in Canada will benefit this country as fully as possible. Indeed, it is inevitable that the multinational's interests will frequently

TABLE TWO: MULTINATIONAL FIRMS' ROLE IN CANADIAN MINERAL DEVELOPMENT, BY COMMODITY

COMMODITY	MAIN MULTINATIONALS INVOLVED (AND LOCUS OF CONTROL)	EXTENT OF MULTINATIONALS' ROLE
Nickel	Inco Ltd. (Canada?)	84% of 1974 Canadian output
	Falconbridge Ltd.(U.S.)	13.4% of 1974 output
Copper	Noranda Mines Ltd.(Canada)	70% of 1974 refined output, 26% of Canadian mine capacity
	Inco Ltd.	30% of 1974 refined output, 20% of overall 1974 output
	Falconbridge Ltd.	9% of overall 1974 output, 1 of 4 Canadian copper smelters
	Anglo-American Group(U.K.-South Africa), via control of Hudson Bay Mining & Smelting	1 of 4 Canadian smelters, 4% of 1974 output
	Texasgulf Inc.(Canada? - via Canada Development Corp.?)	6% of overall 1974 output
	Rio-Tinto-Zinc (U.K.)	5.6% of overall 1974 output
Zinc	Noranda Mines Ltd.	29.5% of overall 1974 output, 27.9% of refined output
	Texasgulf Inc.	22.2% of overall 1974 output, 22.4% of refined output
	Cominco Ltd.(Canada)	20% of overall 1974 output, 33.6% of refined output
	Anglo-American Group	3% of overall 1974 output, 16.2% of refined output
Iron Ore	major U.S. steel producers, especially U.S. Steel Co.	Six U.S. steel firms own a majority of shares in Iron Ore Company of Canada, producing 44.6% of 1974 output; U.S. Steel owns Quebec Cartier Mines, producing 17.4% of overall 1974 output; foreign steel firms own majority of shares in Wabush Mines, producing 11.7% of 1974 output. These 3 comprise 73.7% of 1974 output.
Asbestos	Johns-Manville Corp. (U.S.)	With three other foreign-controlled firms account for 100% of Quebec output.
	Asbestos Corp. (U.S.)	

Sources: Calculated from Canadian Mineral Yearbook, 1974, preprints on nickel, copper, zinc, iron ore; Financial Post Survey of Mines, 1973 & 1975; W.E. Koepke, "Structure, Behavior & Performance of the World Potash Industry", Dept. of Energy, Mines & Resources Mineral Bulletin MR 139, 1973, p. 10.

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conflict with the development goals of a given nation.

Such conflicts will occur most often when foreign manufacturing multinationals make investments in Canada to feed raw materials to their production facilities abroad. This pattern is obvious in iron ore and gypsum subsidiaries in Canada.

In such cases subsidiaries won't manufacture here the resource they are extracting since such moves might undercut parent company manufacturing. These subsidiaries will often be selling almost entirely to that parent abroad, at low, secure prices.

Because of the low prices the parent company pays its Canadian subsidiary for its raw materials, it doesn't need to take its profits from resource extraction directly. Instead it makes its money from the higher profits it receives from its manufactured products made in the home country.

Among examples of these pricing problems experienced in Canada, a recent Manitoba case in the fertilizer industry is particularly well-documented: Simplot Fertilizers in Brandon sold ammonium nitrate to its U.S. parent company at $3 to $5 per ton cheaper than it sold to other U.S. customers in the same state, over a two year period. [3.]

Similar conflicts emerge even in the case of multinationals that base their business on resource extraction. These multinationals are likely to invest in processing and manufacturing facilities themselves. But there is no guarantee that the firm will locate such investments in the same country as extraction.

From a national point of view this can lead to ridiculous situations. For instance, Falconbridge Nickel exports its nickel for refining to Norway, from which part of the refined metal is shipped back to serve the Canadian market. At the same time a refinery, owned by Sherritt-Gordon, in Western Canada, is forced to import unprocessed nickel from the South Pacific to feed <u>its</u> operations!

Conflicts are also evident in the expansion policies of multinationals. Canadian-based multinationals are increasingly pushing their exploration and development investment into overseas operations. Noranda has a copper project in Chile, Inco has extensive Indonesian and Philippines investments, and Cominco has interests in South Africa,

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Australia, Central Africa and India. Such developments lessen Canada's future potential role in the international mineral trade. They also weaken the bargaining power of Canadian governments with such corporations. In any dispute with a Canadian government the multinationals can shift reliance to alternate supply sources in other countries.

This multinationals' use of this bargaining strength is illustrated by many examples from recent Canadian economic history. But one of the more striking examples is Ontario's present policies toward the nickel multinationals. In the early seventies, the province amended its tax regulations to force more local processing of extracted minerals. But in December 1975, in the face of considerable pressure from the nickel multinationals, Ontario deferred one important feature of its changes.

The new regulations declared that multinationals could not deduct the costs of processing Ontario minerals abroad, from their calculation of the amount of provincial mining tax owed. This was deferred for five years.

But in addition, Ontario gave Falconbridge (which processes in Norway) a four year exemption from the new requirement that ores be processed in Canada!

The economic lever used by Falconbridge was the implicit threat that they would either shift their raw materials supply for the Norwegian refineries, or their new capital investment from Canada to other countries.

Canadian governments have recognized that reliance on multinationals seriously constrains policy options. "Towards a Mineral Policy for Canada", comments "in policy formulation, we must recognize that international (including Canadian-based) corporations now operating in Canada can shift their technical and financial capabilities to other countries if they perceive more favourable opportunities elsewhere."

Yet Canadian governments, by and large, have offered no systematic response to this situation. This appears to be a further critical failure in mineral development strategy. Indeed, a coherent development strategy should have at its core some means of requiring multinational enterprise to have its subsidiaries here accept Canadian development priorities. It must also contain alternatives to multinational-reliance should such firms resist Canadian policy initiatives by shifting their exploration and development efforts to foreign countries.

(c) Impediments to Canadian Mineral Processing and Manufacturing

Minerals go through various stages of production in their movement from deposits in the ground to final consumer goods. Most metallic minerals are extracted in ore form. The ore is then concentrated - by crushing, flotation and/or chemical leaching to form a concentrate in which the percentage of metal is much greater. This concentrate is then smelted and/or refined to obtain the pure metal sought. Casting, rolling or extrusion then produces semi-fabricated shapes from the metal. Finally, manufacturing of metal products is undertaken, producing wire, cable, metal sheets, alloys with other metals, etc. Typically, concentration of ore is done at the site of extraction. But further processing facilities are commonly located elsewhere, so that much concentrate enters into world trade unrefined. This means the producer country loses significant revenue which would have been added by domestic processing. Examples of this in Canadian mineral exports are very disturbing. As Graph Two shows, the share of Canadian metallic mineral exports sent abroad in crude form has increased considerably over the 1950-1973 period. The offsetting increase in fabricated exports has been very small.

There could, of course, be sound economic reasons for this trend. It might be argued that transport costs would be so much higher for exports of Canadian processed minerals that markets would be lost if we insisted on such processing here. It might be argued that costs of fabrication here are so much higher than those in the United States or Europe that our manufactured metal products could not penetrate their markets. The limited evidence available doesn't support those arguments.

For example, one of the major sources of increased crude exports from Canada is B.C. copper concentrate shipped to Japan. A detailed study has shown that freight costs as a percentage of the product's value would be <u>lower</u> for smelted, refined or fabricated copper than it is for the concentrate ore exports. [4.] Similarly, manufacturing costs can be compared in the steel industry - statistics show that in 1974 steel plate from Stelco in Hamilton was $201 per ton, compared with $227 per ton in Pittsburgh from a U.S. producer, and $239 in Germany from a German producer. [5.] There must be other factors than strict cost differences to explain rising crude mineral exports from Canada.

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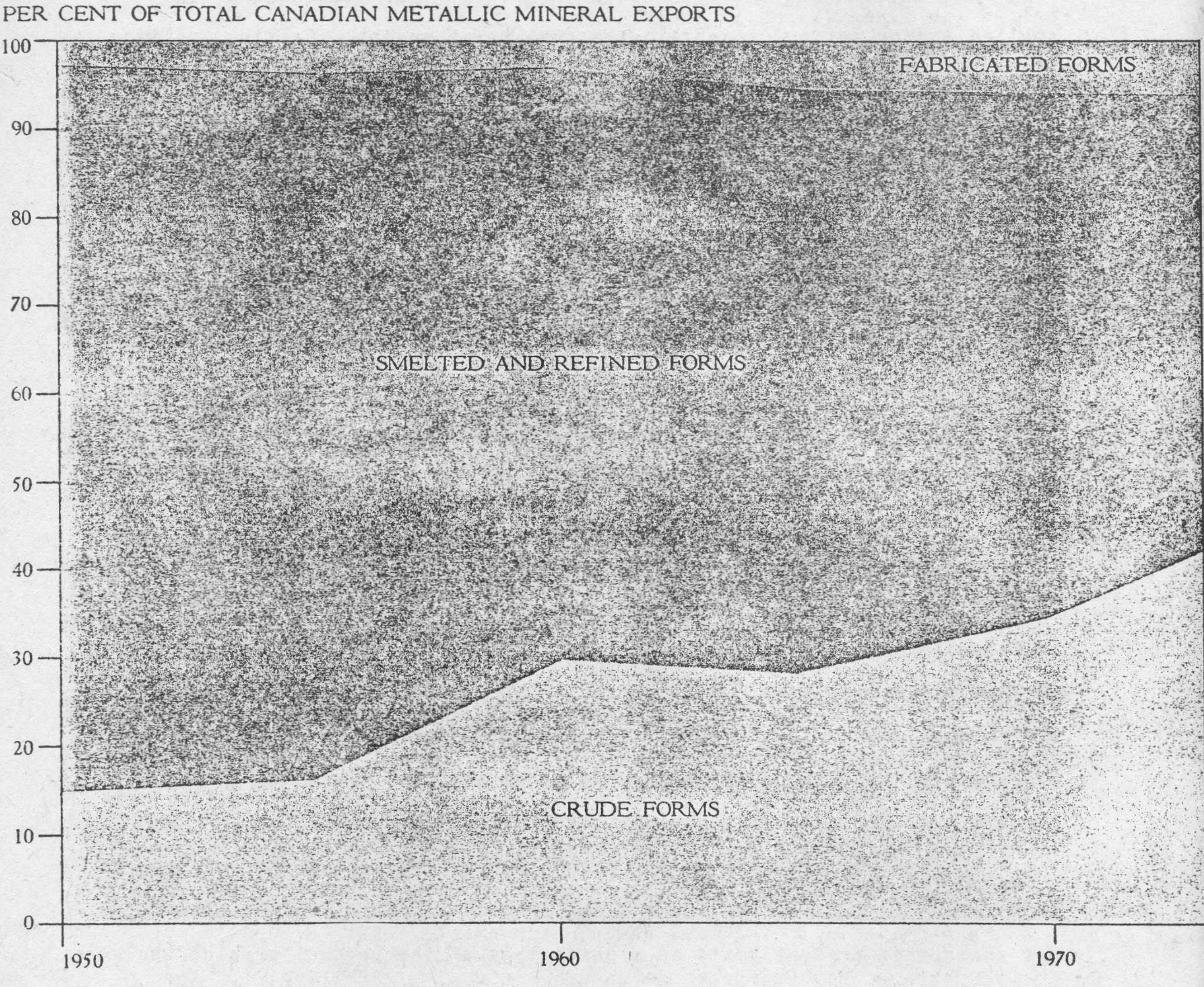
Graph Two:

PROCESSING TRENDS IN METALLIC MINERAL EXPORTS, 1950-1973

(12 major metallic minerals excluding iron and aluminum, expressed as percentages of total exports)



Source: Towards a New Mineral Policy for Canada, p. 52

Two other factors deserve key emphasis. The first, already notes is how the strategies of multinational firms shape decisions on the location of processing and fabrication. Falconbridge's activities in nickel illustrate this point. The drive toward crude copper exports from B.C. is a slightly different example. But there we see the efforts of Japanese refineries to guarantee long term concentrate imports for their established Japanese plants.

A second factor is equally important. Most industrialized countries set their tariffs on imported concentrates higher than imported crude ores. This is a further incentive to Canadian subsidiaries of foreign multinationals to ship crude ores to the home country. Table Three provides evidence of this "tariff-stacking" for some of Canada's more important minerals.

These obstacles to processing and manufacturing in Canada the minerals extracted here require a tough response. Yet the major means used to promote change by Canadian governments has been tax concessions to mining firms if they undertake processing in this country. This offers no response to the tariff biases in other countries, and tends to lose for Canadians some of the tax benefits which they would otherwise receive from the mineral sector. Such tactics, moreover, have their greatest impact in promoting processing and refining of metals, not manufacturing from them.

Such processing/refining is usually very expensive and promotes little new employment. Metal manufacturing is less expensive and creates far more jobs. B.C. studies show that copper smelting/refining facilities would cost $400,000 per job to establish. But copper wire and cable mills cost only $40,000 per job. [6] The present Canadian strategy is stupid, if our objective is to increase revenue and create jobs. We need a more direct approach which responds to unequal foreign mineral tariffs, and encourages metal manufacturing as well as smelting/refining.

(d) <u>The Dangers of Depletion and Environmental Damage</u>

One of the more complex problems in any mineral development strategy is whether existing rates of extraction are desirable. In strictly economic terms, it is often unclear whether it is better to slow down extraction because you expect price rises in the future. Or is

TABLE THREE: TARIFF RATES FOR DIFFERENT STAGES OF PRODUCTION IN RELEVANT CANADIAN EXPORT MARKETS

COMMODITY	STAGE OF PRODUCTION	TARIFF RATES IN:		
		U.S.	EUR. COM. MKT.	JAPAN
Nickel	Ore and concentrate	free	free	free
	Unwrought refinery shapes	free	free	13.4
	Semi-manufactured	8.7%	5.1%	12.3
Copper	Ore and concentrate	free	free	free
	Unwrought refinery shapes	free	free	8.5
	Wire	over 6%	8%	12%
Zinc	Ore and concentrate	under 2%		
	Zinc anodes (refined)	9.5%		
	Zinc alloys	19%		
Iron Ore	Ore and pig iron	free		
	Steel bars	7.5%		
	Steel pipes	over 11%		
Asbestos	Non-manufactured	free		
	Yarn, cloth, cord, etc.	5.5%		
Gypsum	Crude	free		
	Boards, lath, tile	6%		

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it better to speed up extraction because you expect future price decreases as synthetic substitutes for raw material are developed.

These economic considerations at the corporate level include another factor, too:- A company may be worried about tax changes and other regulatory revisions in future mineral policy. This might encourage rapid extraction while the present known rules are in force.

We cannot allow such corporate calculations to determine Canadian mineral extraction rates. We must consider three wider social questions in setting a desirable extraction rate.

First, Canadian mineral users have an important interest in avoiding a future in which they are heavily dependent on mineral imports from the unstable international economy, with its wide mineral price fluctuations. We have already felt the battering our wider economy takes when there were large price increases in one key raw material import - oil.

It should also be an important social consideration in Canadian mineral policy to maintain some secure supply sources here so long as possible. It is true that existing reserves of most major Canadian mineral commodities are considerable; our anticipated domestic needs to the year 2,000 as a percentage of current reserves are the following:

0.3%	in asbestos
14 %	in copper
1 %	in iron
13 %	in nickel
0.04%	in potash
16 %	in zinc [8.]

This means that supply security can hardly be the dominant central concern in present mineral development strategy. But projected export increases <u>are</u> large, so some concern with future domestic supply should be at least a consideration in planning extraction rates - particularly in such cases as copper, nickel and zinc.

A second social consideration is that <u>depletion</u> of Canadian minerals is unlikely ever to be the direct problem for our economy. But a run-down of present fairly rich deposits will lead to extraction of poorer ores. Such a shift will mean considerably more land is devoted to mining. It also means an increasing reliance on more environmentally destructive

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forms of mining - particularly heavy pit and strip mining. Such environmental damage has a considerable social cost which private firms will not take into account in their calculations.

Finally, third, as a very large exporter in many international mineral markets this country may have an interest in some reduction of our exports. A minor reduction in supply may raise world prices in that mineral sufficiently to generate more national revenue for Canada. It would also increase our bargaining ability with multinational corporations. This is very important if Canada co-ordinates its mineral marketing with other countries through producer associations.

In the past Canadian governments have reacted to any concern about supply depletion by encouraging more exploration by companies to uncover greater reserves. To provide such encouragement to the multinationals governments have had to offer considerable concessions. These concessions have meant the loss of potential tax revenues. Again the case for a tougher response seems strong. A direct government role in planning extraction rates would make it possible to require corporations to meet the social considerations stressed above.

(e) Federal-Provincial Conflict

There is bound to be some inter-governmental conflict in a case where a commodity clearly under provincial control, relies so heavily on export marketing simply because the federal government has considerable constitutional jurisdiction over international trade. However, recent developments in the mineral sector have seen this inherent conflict escalate dangerously. The conflict has emerged most clearly over tax issues; two issues are central:

(1) the federal government no longer permits resource firms to deduct provincial royalties from their revenues in calculating profits for federal tax purposes;

(2) the federal government has recently worried aloud that provincial crown corporations are not subject to federal tax.

This exemption encourages provincial nationalizations in the resource field. Both of these federal concerns threaten provincial government revenues from mineral resources. The conflict is now hottest in the case of potash. The federal government is intervening on the potash corporations'

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side in a court challenge of the constitutionality of the Saskatchewan government's "reserve tax" legislation.

Some attempt to cope with such conflicts and to better co-ordinate policies among governments is represented by the 1973 decision to establish a Canadian Ministerial Conference on Mineral Policy. The Conference is made up of the resource ministers of all of the Canadian governments. Although this institutional development may yet offer some potential for future co-ordination it has been inactive and ineffective in its operations to date.

Some inter-governmental co-ordination is surely necessary. Otherwise multinationals will continue to bargain off one government against another - winning considerable concessions for themselves as a result. Policies to establish more mineral processing and manufacturing, and policies to regulate rates of extraction also require such governmental co-operation.

There should be no doubt that provincial governments have the paramount role in mineral strategy development. But there should also be no doubt about the important benefits for all Canadians that can be achieved through co-ordination of that role via a federal-provincial institution like the Canadian Ministerial Conference.

(f) The Potential for Tax Revenue Gains

There are many reasons why the Canadian mineral sector should be a large contributor to Canadian tax revenues. But, in fact, tax treatment of the sector has largely prevented this. This historical and contemporary fact represents the most disgraceful failure of all in Canada's mineral development strategy.

Why should this sector contribute so significantly to tax revenues?

First, because there is generally throughout Canada no question of who owns the mineral resources being extracted. With the exception of some land grated to the CPR et al, minerals are owned by provincial or federal governments. One would expect this clear-cut public ownership to be reflected in considerable public revenue. The multinationals hold no more than "claims" to the rights to do the mining - that they have to pay for the minerals they extract is clear.

Secondly, most Canadian minerals are exported. This means that little of Canadian tax levies can be passed on to Canadian consumers. Much

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greater percentages of Canadian secondary manufacturing are passed on. Such a situation makes the equity of heavy taxes on mining profits clear-cut.

There is a further key reason for looking to the mineral sector for increased revenues. As world mineral extraction shifts to more difficult deposits and average prices therefore rise, existing companies with rich, low-cost Canadian mines reap an unearned bonanza. These richer mines are now giving their owners a normal percentage return on capital invested or profit.

But when world prices rise, the output from the low-cost producing mines is sold at the higher prices - thus giving the companies "superprofits" above the normal rates. These extra profits should go to the owners of the resources - the Canadian people. We should charge an "economic rent" because of growing scarcity of such rich deposits. A well-designed tax system would see to it that such "rents" were largely garnered by the public. Instead of flowing in the form of sudden new profits to the multinationals as they do in most cases now. This is the objective of the Saskatchewan government in potash. Realized prices of potash rose by 40 to 50% during 1974 so that government introduced a new "reserve tax" designed to capture most of this new bonanza for the public. This one measure might have returned new tax revenues of $87 million to the public sector, in 1975 alone.

As Table Four shows, the best available international forecasts suggest that minerals and metals will largely retain the price gains of 1973/74 over the next 10 years. Other non-petroleum raw commodities will probably return to lower 1970/71 rates. Therefore this issue of "economic rent" and its capture will remain very significant. If producer associations emerge in a number of minerals, able to maintain price increases rather more effectively then "rents" become even more important. The table does not assume such associations in its forecasts so it is possible to predict even greater gains if they were to become a market force.

How effective is the Canadian tax system at capturing such rents? One indicator that rents are not being captured from the mineral sector is the fact that over the 1962-1975 period, metal minings' profits (i.e. return on capital) averaged 13.5%, compared to 10.8% for all industries in Canada.

A more detailed test is to examine the financial performance of

TABLE FOUR: PRICE INDEX FORECASTS FOR INTERNATIONAL COMMODITIES

(1973=100 in the index)

	in Constant Dollars		in Current Dollars	
	34 Non-Petroleum Commodities	Metals, Minerals & Ores	34 Non-Petroleum Commodities	Metals, Minerals & Ores
Actual Prices				
1970	89	106	65	78
1971	79	85	61	66
1972	79	79	67	66
1973	100	100	100	100
1974	114	115	139	139
1975	90	93	121	124
Forecast Prices				
1976	91	98	134	143
1977	89	102	140	160
1978	88	100	150	170
1979	88	97	160	177
1980	88	97	171	189
1985	91	103	249	282

Source: World Bank, Price Forecasts for Major Primary Commodities, Report No. 814, July, 1975, pp. 17-18.

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three of the most important multinationals producing the minerals in which world prices have soared in the 1973/1974 period. All three of these firms have the bulk of their mineral production concentrated in Canada, and if our tax system were at all effective at capturing rents, the profitability of these firms in 73/74 would not have risen all that dramatically above 1972 and 1975. The three firms are Inco (mostly nickel), Cominco (mostly lead and zinc), and Texasgulf (mostly zinc and potash). Table Five shows there is little sign of significant rent capture in the two high-price years.

In fact, not only is Canadian rent-capture very minimal, but corporate taxation as a whole on mineral firms has been notoriously weak in Canada.

In the past this revenue loss was due to four major concessions:

(1) a three-year tax holiday for new mines - a ridiculous concession since companies extract the highest-grade, most profitable ore in this period.

(2) automatic deduction from taxable income an amount supposed to represent resource "depletion".

(3) accelerated depreciation allowances - also available to other corporations besides those in resource extraction.

(4) deduction of exploration and development costs from their taxable income - even though such costs should be considered investments in the capital assets of newly-discovered operations.

In his report to the Manitoba government, former federal cabinet minister Eric Kierans summarized the outcome of such concessions.[9.]

> It is sufficient here to emphasize the encouragement given to the mining industry by the federal government through its tax legislation. Profits before taxes for the years 1965-70 as recorded in the books of the corporations amounted to $3,165 million. Through preferential tax legislation, they were permitted to report $591 million only as subject to corporation income tax. More than two and one-helf billion ($2,574 million) in profits escaped federal and provincial corporate income tax.

Although some of the more blatant of these tax concessions have now been eliminated (including automatic depletion allowances and the tax holiday), major concessions remain in federal tax legislation. Exploration and Development costs can still be deducted as an immediate operating expense rather than (as with other investment expenditures) an item to be deducted over time as depreciation.

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TABLE FIVE: FINANCIAL PERFORMANCE IN THREE MULTINATIONALS

MULTINATIONAL	MEASURE COMPARED	1972	1973	1974	1975
Inco	Net earnings ($ million)	112	226	299	187
	Return on shareholders' equity (%)	10.5%	18%	21%	12.5%
Cominco	After-tax profit ($ million)	20	43	86	73
	As Pct. of Net Investment	8%	12.4%	22.6%	18.2%
Texasgulf	Net Income($ million)	30	74	147	103
	As Pct. on shareholders' equity	7.9%	16.8%	26.3%	16.4%

Sources: International Nickel Company, Annual Report, Feb.12, 1976 p. 7; Texasgulf Inc., Annual Report, 1975, pp.22-43; Canadian Mines Handbook, 1974-75, (Toronto, 1974; United Steelworkers of America, "Report on Cominco", Toronto, April, 1976, p.14.

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Moreover, a new depletion allowance permits resource firms to make an additional deduction, equal to one-third of these exploration and development expenditures, from operational revenue. These expenditures don't even need to be made in Canada to qualify for these concessions! Even the cost of buying another firm's mineral rights can be treated as a capital investment so that they are considered additional exploration and development costs!

The consequence of such ongoing favouritism is shown in Table Six. A pitifully small proportion of mineral firms' earnings is actually subject to corporation tax. Were it not for the efforts of a few provincial governments to raise their mineral tax revenues, the Canadian people would be receiving very little return from the resources they own. This failure to take advantage of the clear revenue possibilities which exist in the mineral sector must be seen as the most shocking failure of past mineral development strategy.

II - ELEMENTS FOR A NEW DEVELOPMENT STRATEGY

The failures illustrated in the different policy areas above need to be corrected.

The mineral sector is of potentially great significance to a broad development strategy in Canada, aimed at social equity and industrial development within this country. With a tough development strategy the mineral sector can contribute to more independence and technological self-reliance for Canada in the international economy. It can provide the foreign exchange earnings and the public revenues to finance such a transition from our traditional history. But a new mineral development strategy will be required to achieve those earnings and assure that they are available for long enough to accomplish our socio-economic objectives.

That a new strategy should be focused around four policy initiatives:

1) establish a federal-provincial Mineral Planning Agency.
2) join with other producer countries in mineral producers' associations.
3) capture much larger public revenues from mineral production through tax changes.
4) set up public enterprise alternatives to the mineral multinationals.

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TABLE SIX: RATIO OF TAXABLE INCOME TO CORPORATE PROFITS, BY INDUSTRY, 1969-73.

INDUSTRY	PERCENTAGE OF PROFITS SUBJECT TO CORPORATE TAX				
	1969	1970	1971	1972	1973
Metal Mining	18.6	25.3	1.4	9.7	20.2
Mineral Fuels	5.7	2.5	9.3	31.4	35.1
Other Mining	4.6	22.5	18.2	31.4	27.6
Total Mining	12.6	20.3	6.0	22.3	25.3
Manufacturing	78.6	68.4	68.8	73.6	67.9
Construction	78.3	74.9	72.6	88.4	71.2
Wholesale Trade	87.9	86.5	85.7	89.1	87.0
Retail Trade	90.7	88.0	84.8	83.4	86.1
Finance	54.0	54.2	47.1	51.5	49.4
Services	83.5	68.6	75.4	84.2	74.9
All Industries	64.7	60.0	58.7	65.5	60.0

SOURCE: Statistics Canada, Corporation Taxation Statistics, 61-208.

The goals sought by these initiatives are:

1) to raise public revenues for economic diversification and job creation.
2) force more mineral processing and manufacturing within Canada.
3) safeguard long-run environmental conditions that might otherwise be damaged by rapid mineral depletion.
4) obtain more independent control over the economic decision-making that affects this economy and society.
5) assist other poorer mineral producing countries to obtain a better, more stable return from resource extraction in their countries.

Various more specific details of the four policy initiatives that can achieve these goals are set out in the concluding parts of this paper.

(a) A Federal-Provincial Mineral Planning Agency

Mineral development is so important a concern for Canada that the country needs a new institutional framework to plan policy changes. A Mineral Planning Agency should be at the heart of such a new framework. Its aim would be to respond to many of the shortcomings suggested above:

(1) to develop co-operation and co-ordination among federal and provincial governments on mineral policy giving the public more bargaining strength in dealing with the mineral multinationals.

(2) to control, in negotiation with large-scale producers, annual output and export levels for Canada's major minerals - in order to slow down extraction rates.

(3) to work out sensible rent-capturing tax strategies for the various diverse minerals Canada produces.

(4) to develop and promote more participation and control by mining-based communities and mineral-sector employees in the output and investment planning of the particular enterprises with which they deal, in order to give such communities and workers more defence against sudden mine shutdowns, dangerous pollution damage and unsafe working conditions.

Each mineral is unique in its particular production/processing characteristics, and the agency would develop plans appropriate to each mineral. It would also become a focus of public sector expertise and information on the mineral sector. It would gradually extend its planning function to relations with the mineral multinationals as its expertise and experience grew.

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Clearly such an agency could not be the creature of the federal government, given the provincial jurisdiction over resources. But the Canadian Ministerial Conference on Mineral Policy could be the umbrella which establishes the agency, and through which the agency would report to the provincial and federal governments to which it would have to be accountable.

Close links should also exist between such an agency and the communities and workers' organizations involved in the mineral sector, so that such communities and workers can have clear information on future policy, so that they can participate in planning of that policy, and so that they can assure that they share equitably in the benefits shaped by policy changes.

(b) Participation in Producer Associations

There is no sense whatsoever in Canada remaining outside producer associations in the mineral sector, such as CIPEC and AIOEC. As a large mineral exporter, Canada has a considerable interest in more stable prices, in better bargaining with the multinationals, and in co-ordinated efforts to obtain more public revenues from mineral extraction.

In such minerals as copper, iron ore, zinc and nickel, the great bulk of international exports goes to the industrialized, developed countries - over 95% in most cases. This means that there is little risk of damage to poor-country importers. It is not proposed that these associations should function as OPEC has.

Indeed, Canadian participation would strengthen such associations and thereby help the poorer countries that presently make up the bulk of their membership. Canada's Mineral Planning Agency would, of course, have to work closely with any producer associations Canada joins.

It should be stressed that other international efforts are also underway, through UNCTAD initiative, to establish mechanisms for mineral price stabilization. Iron ore and copper are both among the 18 commodities for which UNCTAD is trying to organize an integrated commodity stabilization programme. Canada has a clear interest in supporting such moves.

(c) Raising Canadian Tax Revenues

The scandalous concessions received by mineral resource companies under corporate tax legislation must be an immediate priority to change. In 1973, for instance, Statistics Canada reported profits of $1.6 billion that were deducted from taxable income. Even the existing 45% corporation tax rate on such earnings would have generated more than $700 million in extra revenue. Depletion allowances should be eliminated. Exploration and development costs should be treated as the capital expenditures they are. Resource firms should pay current tax rates on all current earnings.

Rent-capturing efforts will have to be based mainly in the provinces. Various tax possibilities exist: The most straightforward and effective is a progressive mining profits tax. To be applied to mine surpluses after deduction of real operating costs.

This tax should take much higher percentages of profits when the rate of profit, as a percentage of capital invested, rises. In Saskatchewan uranium development, for instance, when operating profits exceed 45% of capital investment, royalties due the province rise from 30% to 50% of those profits.[10.] The most appropriate rent-capturing tax will vary by commodity and region, though, and flexibility in strategy is needed. In any case, full information on mine operating costs will be essential to success.

Taxation changes can also be used as techniques to seek certain broader objectives in mineral strategy. Export taxes would be a powerful instrument by which to counter tariff-stacking in foreign economies, thereby encouraging more processing and manufacturing here. The highest export levies should be imposed on crude exports, with lower levies on processed exports, and no imposition at all on manufactured goods.

Even if Canada implemented such a strategy without co-operation with other producer countries our central role in much mineral trade would allow us to gain revenue without loss of much of our foreign markets - because there is a fairly constant demand for most minerals. But this strategy would be very much easier to implement if we were co-operating through producer associations.

Another useful tax to consider is an environmental protection tax, to be levied on each unit of production. To be applied in cases were high rates of extraction seem certain to force early movement to more damaging forms of extensive mining. The possibility of imposing such a tax could be the weapon which the Mineral Planning Agency can use on firms which refuse to co-operate with it in planning and regulating extraction rates.

This combination of tax changes would have a considerable revenue effect. If the World Bank's long-term price forecasts for minerals are correct, there will be considerable rents to capture in the next seven to eight years. A conservative estimate of likely yearly revenue gains from changes such as these would run around $2 billion - one-third derived from tax reform to eliminate special resource industry concessions; one-third from provincial rent-capturing taxation; and one-third from new export and environmental protection levies.

(d) Alternatives to the Multinationals

It is not enough to count on taxation changes to assure public revenue gains and to enforce more manufacturing and processing. As stressed above, detailed production cost information is essential to any effective rent-capturing strategy. Foreign tariff-stacking is not the only impediment to processing and manufacturing in Canada. Multinational dominance of Canadian mining will make this information difficult to obtain. Multinational corporations past investment patterns are an additional impediment to manufacturing and processing development.

The Mineral Planning Agency and participation in international producer associations are changes that will strengthen community control over these multinationals. But they will not be sufficient changes to assure that control. Concerted refusal by the multinationals to co-operate in information sharing, in planning marketing, and in ongoing exploration and development would strongly challenge the new strategy. Where the multinationals have strong control over foreign marketing channels this resistance would seriously threaten this new Canadian strategy.

Therefore Canadian mineral development strategy must have at its core the establishment of community-owned alternatives to the multinationals. This would not be necessary if Canada were to socialize all the large mineral multinationals in the country. But that course would lose for us some of the advantages of foreign marketing networks and foreign technological skills which the multinationals can provide. It would be very expensive financially. But more importantly it is unnecessary to achieve our

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objectives. Mineral development is always going to be risky. It is useful to have a variety of firms operating in the sector so that this risk is shared.

If the Canadian people own a series of viable, large-scale mineral corporations, they have the means to:

(1) generate detailed production and marketing information;

(2) undertake processing and manufacturing investments directly;

(3) fill in for any multinational refusal to undertake exploration and development;

(4) take over any unco-operative multinational and make it part of another viable corporation.

Having the direct means to accomplish these goals is the best guarantee that the multinationals will co-operate in accomplishing them too.

How should such public enterprise alternatives be developed?

The existing multinationals control the great bulk of rich mineral claims in Canada, and they have extensive managerial and marketing structures. To try to build alternatives to them from scratch would be close to impossible. If Canada is to have real alternatives available in this critical period of mineral development strategy, we must be prepared to take over the operations of a number of existing multinationals as the core of new public enterprise.

This, for instance, has been the path taken by the Saskatchewan government in shaping its potash strategy. The Potash Corporation of Saskatchewan was created as a public enterprise. It quickly moved to take over the Saskatchewan potash operations of a U.S. multinational. PCS has now also agreed to purchase another multinational mine in the province.

The development of mineral public enterprise should undoubtedly take a number of paths. Saskatchewan's initiatives have assured sufficient movement in potash. The Quebec government is considering some similar public enterprise moves in the asbestos industry. The Canada Development Corporation now owns a controlling minority of shares in Texasgulf. The Canadian operations of that multinational could be meshed into a public mineral corporation in this country. Among the major mineral commodities, the most important gaps are in iron ore and nickel, suggesting that new federal government takeovers would be most useful among firms in those two

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industries. Our vision is of a set of such public enterprises, some provincially-owned and some federally-owned, all co-ordinated through the Mineral Planning Agency and reporting to both levels of Canadian government.

III - IMPLICATIONS FOR OTHER ECONOMIC SECTORS

Such initiatives in Canadian mineral development strategy would impinge on planning in other sectors in various ways. An industrial strategy for Canadian manufacturing, for instance, would have to recognize the increases in metal manufacturing implied by these initiatives. Our transportation and housing strategies will be affected somewhat by the planned slowdown in Canadian mineral extraction. Energy planning would have to keep in mind the increased energy requirements implied by more mineral processing within this country.

But the most important implications of these initiatives impinge on our employment and taxation strategies. The thrust of this approach is to considerably increase public revenues from minerals. This will help finance a wide set of employment-oriented development projects. It will also help us move to greater equity in the Canadian tax system. Canada's mineral resources are non-renewable. Effective public planning is needed to assure that their benefits renew and diversify the rest of our economy for the future. Public planning requires the will to tackle the multinationals and the imagination to build new planning institutions.

APPENDIX

1. See John Tilton, "The Choice of Trading Partners: An Analysis of International Trade in Aluminum, Bauxite, Copper, Lead, Manganese, Tin and Zinc", Yale Economic Essays, Fall, 1966.

2. UNCTAD Secretariat, Proportion between Export Prices and Consumer Prices of Selected Commodities Exported by Developing Countries, Jan. 1976 (TD/184/Sup.3).

3. Report of the Commission of Inquiry Into . . . Fertilizers in Manitoba, May 31, 1973, p. 71.

4. Lorne Sivertson, "A Review of the Report of the British Columbia Copper Task Force," B.C. Institute for Economic Policy Analysis, Sept., 1975, p. 33.

5. Canadian Mineral Yearbook, 1974, Iron and Steel preprint, pp. 12-13.

6. Siverton, op. cit., p. 9

7. Source: Canadian Minerals Yearbook, 1974, Preprints on nickel, copper, zinc, asbestos, iron and steel, gypsum; R.A. Calderisi, "Nickel," Background Study Prepared for the Trade Resource Group, Government of Manitoba, 1972.

8. Towards a Mineral Policy for Canada, p. 40.

9. Eric Kierans, Report on Natural Resources Policy in Manitoba, Secretariat for the Planning and Priorities Committee of Cabinet, Government of Manitoba, 1973, p. 14.

10. Province of Saskatchewan, Regulation 208/76, The Mineral Resources Act, as published in The Saskatchewan Gazette, Aug. 20, 1976, Vol. 72, No.34, Part II, pp. 491-501.

Housing

A NATIONAL HOUSING STRATEGY

I. INTRODUCTION

During the first three quarters of a century of Canada's existence, successive Liberal & Tory governments ignored the housing needs of Canadians. It was a rise in public concern with social and economic conditions in the 30s and 40s, and the challenge of values implied by the coming to power of the CCF in Saskatchewan toward the end of the Second World War, that provided the pressure upon the Federal Liberal government to introduce some basic national housing legislation. It required the emergency of national mobilization for a major war and the pent-up pressures for housing which were generated during and after that war to move the Federal government into action. In the early 1940s, the Federal government demonstrated what the public sector could to when it had to, when it established a national housing corporation, Wartime Housing Limited, to undertake the task of organizing and mobilizing the design, development and management of thousands of housing units considered essential to the war effort.

With the war over, C.M.H.C., a new national mortgage-lending and housing agency, was created primarily to provide mortgage financing for housing built by the private market for potential suburban house-buyers, most of them returning veterans. The Federal government closed down its own production capacity in 1947 and began contracting out housing development totally to private developers. By 1949 it had also short-sightedly liquidated most of its housing stock.

From the beginnings of C.M.H.C. in the mid 1940s, the Liberal decision-makers who brought into being this national housing agency asked few questions about the long term social, environmental, and economic implications of their policies. There was little concern with alternative means of transport, journey-to-work patterns and costs, energy consumption, or the cost implications for future infrastructure of dispersed sprawling communities or the inexorable constraints that these housing policies would impose upon future lifestyle alternatives.

Neither was there much concern about the loss of agricultural land close to urban areas. Scarce agricultural land and precious open space were bulldozed into urban subdivisions as consecutive laissez-faire Federal and provincial governments did little to counter or arrest the process. In the Niagara fruitbelt, from Bowmanville to Burlington and from Stoney Creek to St. Catharines, sucessive Ontario Conservative governments

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encouraged extensive development upon thousands and thousands of acres of irreplaceable and highly productive agricultural land; in this misguided policy, they had considerable aid and assistance from the Federal government for both servicing and housing. On this agricultural land now there are subdivision after subdivision, and mile upon mile of expressways and super-highways. In British Columbia, the Okanagan Valley fared no better under successive Social Credit provincial governments and laissez-faire Federal Liberal and Conservative governments, which through C.M.H.C. continued to fund housing and urban services on lands which should have remained in agricultural use.

It was not as if the Federal Liberals had no alternatives. In the Laurentian mountains north of Montreal, an important post-World War II proposal for the creation of a major National Park area was outlined by senior C.M.H.C. and other Federal officials in the late 1940s, yet it was turned down by a Federal Liberal government which hid behind the B.N.A. as an excuse for not challenging the short-sighted laissez-faire agricultural and resource policies of the Duplessis government in respect to this precious recreation and natural resource. Some years later C.M.H.C. agreed to fund mile-on-mile of inefficient sprawling semi-rural subdivisions not only into the Laurentians themselves, but along the Ottawa Valley into the Eastern Townships, and along both north and south shores of the St. Lawrence River around Montreal. C.M.H.C. asked few questions about the future costs and planning implications for urban transport, energy uses and services in these areas. Meanwhile, Montreal and Quebec City, like most urban areas of the lower St. Lawrence Valley and like many major urban areas in Canada, continued to dump millions of gallons of untreated sewage wastes into the St. Lawrence and its tributary rivers and streams because of the lack of effective public policies.

In the case of Malton and Dorval airports, successive Federal governments ignored the implications of the massive urban growth which they were sponsoring. Suburban development sponsored by C.M.H.C., the provinces, and the municipalities conflicted with Federal Department of Transport decisions and policies with respect to lands surrounding the major airports of the two largest cities in Canada. At Malton, Ontario, in the late 1950s the Department of Transport of a Federal Conservative government stood idly by, pleading lack of jurisdiction over land, while the Conservative provincial government of John Robarts' blithely approved a massive new town planning

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scheme called Bramalea which leap frogged beyond the urban limits of Metropolitan Toronto at the time, directly into the path of the future expansion of Malton Airport.

By the mid 1960s public pressures within the affected suburban areas around these airports had intensified and forced plans for their relocation on sites remote from the urban centres. Such relocation, however, required the purchase of thousands of acres of vital farmland. And so the ad hoc planning decisions of Liberal and Tory governments - always doctoring their mistakes and the private developer's mistakes with more public money - have resulted in this case and others in simply widening the urban disasters.

While these decisions ultimately made most Canadian taxpayers poorer through wasteful Federal urban and related transport investment policies, they had exactly the opposite effect for private developers, who reaped windfall profits. Today, Canadians in cities all across Canada are paying a high price for this public irresponsibility.

The 1950s and 60s were periods of extensive urban growth and expansion, based primarily on the single-family detached dwelling in subdivisions with densities of 4-5 units per acre - the kind of housing which served upper-middle-income families. The implicit assumption was that eventually most child-rearing middle and upper-middle-income families would be able to afford this alternative, or those without children would be able to rent a privately owned high-rise apartment located either in the suburbs or in inner city areas cleared by redevelopment activity. Few questioned the kind of dwelling starts or their implications for urban life. The emphasis was placed upon the number of dwelling-unit-starts regardless of income rather than upon residential communities to adequately serve all income groups. For successive Federal Liberal and Tory governments housing was a fiscal and political tool, not a basic social right of all Canadians.

After some 25 years of housing efforts and disastrous results from C.M.H.C. policies, the Federal government in 1970 commissioned a Task Force under the direction of Michael Dennis to examine housing policies and programmes for low-income households in Canada. This Task Force concluded that perhaps "as many as a third of all Canadian households are badly housed in the sense of living in housing in need of substantial repairs, in neighbourhoods with inadequate community services, in overcrowded dwellings, in housing which is too expensive for their means, and in rental projects where they have inadequate control over their own living environments".

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As for the urban and rural poor and the elderly, until the 1960s and 70s these groups were supposed to make do with "filtered down" housing in the older areas of cities. The theory was that enough new starts for upper income groups in the outer suburbs would be created each year to make this process work. But the Federal housing programmes have, for the most part, only worked for the most affluent, without producing a mix of good quality housing adequate to serve the needs of all income groups and sensible housing finance policies to ensure that funding would be provided for all groups in need of housing. The filtering process has failed miserably in satisfying the needs of lower and moderate-income groups.

Most important is the fact that the incomes of the lowest income groups are simply too low to allow them to express their demands effectively in the market place. Consequently, all that filtering is able to deliver for the lowest income families are rat-infested slums and firetrap rooming houses. In the absence of adequate supply policies, income supplements and rent subsidies intended to benefit such groups, simply fatten the hungry maw of greedy slum landlords.

Even in facilitating the growth of upper-middle-income suburbs, the Liberals and Tories have been inept. While relatively large public investments for urban services and infrastructure have been undertaken, benefiting primarily private developers and builders and upper and middle-income groups, little has been done at the Federal level to ensure that the unearned increment of land value - that is, the values created by the community - are recaptured by the community as a whole. Consequently most of the benefits of Federal lending investment, particularly in housing and infrastructure in urban areas over the past 30 years, have flowed out of the public sector and into private hands with little added over the longer term to the public goods of the community. Federal and provincial housing and tax policies have also emphasized private ownership and encouraged untaxed speculative profits rather than assuring good quality urban environments with security of tenure.

It has been estimated by a recent study in Western Canada* that each new suburban dwelling unit (primarily for upper-middle-income groups), under current norms of density and patterns of development, receives $8,000 in subsidies for sewers, schools, and urban transportation - subsidies which will never be recaptured in taxes. Furthermore, strategically located rezoned apartment sites, shopping centre lands, and industrial parks have

* City of Winnipeg - Unpublished study.

provided enormous untaxed profits to private developers - yet these profits arose directly out of the normal process of residential growth and development initiated and serviced with and/or guaranteed with public funds. Had these lands been retained in public ownership or at least equitably taxed in respect to unearned increments or capital gains, the monopolistic powers of much of the suburban retail sector could have been considerably reduced, or at very least, the rate of increase of municipal taxes and services costs which now fall so heavily upon average income urban residents could have been ameliorated.

At least two factors have contributed to the inefficient and costly sprawl of so many Canadian urban areas. First, as the Dennis & Fish Study notes:

> "Federal policy has promoted the construction of low density suburban homes, neglecting the development of alternate forms of higher density urban housing. Little attempt is made by builders and no attempt is made by C.M.H.C. to determine user response to the existing models". **

Since the 1940s low density housing has been the basis of Federal policy initiated to the exclusion of any significant alternatives for urban policy. Unlike other industrialized countries with high per capita incomes, such as the Nordic countries which have developed ratios of 60:40 or 70:30 multiple to single family, Canadian housing ratios are exactly reversed in most urban centres with 60-70% single family units. Segregation of groups has also resulted as single persons and senior citizens inhabit the inner cities and young child rearing families the suburbs.

Second, is the fact that housing programmes have more often than not been introduced in the absence of any effective urban and regional planning programmes - programmes which take into account not only capital costs but future operating costs of residential communities in respect to municipal water and sewer, solid waste disposal, snow removal, public transport, protection of persons and property, energy for both heating and transport purposes, schools, parks and recreation, and a host of other costs which arise in an urban situation. Furthermore, even in those urban centres where planning of a sort existed, it was not only not comprehensive, but there was inadequate means of control of land and taxation policies to ensure recapture of some of the unearned increment gained from public investment in services for the community. After some 40 years of steady urbanization in Canada the net result of these factors is an almost total loss of development

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** Dennis and Fish, Programs in Search of a Policy - p.7

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control from the public to the private sector.

Comparing Canada with a number of other developed countries, a review of housing subdivisions and projects completed in the last 30 years also reveals square mile upon square mile of poorly planned and in many instances inadequately designed residential areas. The emphasis has been upon the latest consumer-oriented gadgets and fixtures within dwellings rather than upon well-planned urban communities which will be stable, attractive, and economical to operate over the long run. The number of well planned subdivisions of lasting quality built in Canada during this period can literally be counted on the fingers of one hand! Even the Federal Government's Dennis Fish Task Force suggests that "C.M.H.C. has never demostrated an over-riding concern for the quality of new housing produced even with housing funded under the N.H.A...." The report also notes the following in regard to housing serving low and moderate-income families .... "In our reviews of the programmes we have noted the presence of marginal locations distant from transportation, shopping, recreation facilities, and even schools; of inferior design; of inadequate on site facilities and amenities ...." it then goes on to say ....."the absence of environmental quality guidelines would be excused if they were presently being developed, if studies were underway. They are not..." *

II. POLICY ISSUES - SOME DIMENSIONS

A. In recent years a large part of the inflation in the Canadian economy has been housing-related. This is most acutely observed in the areas of finance and land. Profits (primarily in land) and high interest charges accounted for more than 50% of the price inflation in housing in Canada from 1966 to 1976. Under present constitutional arrangements the first factor, namely the power to control land per se, is a provincial responsibility. Finance, including control over interest rates, is a Federal responsibility, as is control of the allocation of housing funds to various regions and for various housing needs. It is increasingly clear that the greatest failure in allowing inflation in housing to occur in Canada has been Federal in origin.

By failing to provide adequate financial support and encouragement for public land banking to the provinces and municipalities until late in 1973, and by allowing large private development corporations to gain a stranglehold on the greatest percentage of serviced and serviceable land on the outskirts of most of the major urban areas in Canada through the

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* Ibid, p.368

1950s, 60s, and into the early 1970s, successive Federal Liberal and Tory governments contributed significantly to the creation of the present crisis in respect to the price of serviced land and housing in most of the larger urban areas in Canada.

Furthermore, by emphasizing and encouraging urban growth primarily in the larger urban centres, centres in which the acquisition, servicing and development of all developable land has been already controlled by a few large private developers, successive Federal governments have compounded the problem of ensuring adequate housing for the majority of Canadians. Invariably, the predilection of C.M.H.C. has been to minimize private sector risk by encouraging housing investment in the largest urban centres, encouraging the growth of such centres, and either de-emphasizing or simply refusing to finance housing in smaller urban centres. The result has been steady high profits in the private residential sector, particularly in the largest urban centres, a tendency to <u>increase migration from many smaller urban centres to larger cities</u>, an <u>acceleration in the process of coercive rural and northern de-population</u> and a corresponding decline in the quality of life in many smaller communities. Of the more than 273,000 housing starts in 1976, more than 163,000 or 60% were built in cities or urban areas over 100,000 population and almost 210,000 or 77% were started in communities over 50,000*.

B. In the past ten years the Federal Liberal Government, in a panic response to a slow rate of housing starts, has encouraged construction of thousands of efficiency apartment units in the larger urban centres of Canada, particularly such cities as Montreal and Toronto. Some of these "luxury" units have remained empty for long periods, yet affordable dwellings for low income families needing shelter have become increasingly scarce. The Federal Government has pursued a wasteful exercise of "starts for starts' sake", with apartment dwellings, even so called luxury units, becoming steadily smaller. "As construction costs per square foot continued to rise, builders tended to keep the total cost of the dwelling from rising a proportionate amount, by reducing the size of the house".** Meanwhile, new construction of affordable rental housing for families of low and moderate-income has fallen further and further behind.

In remote and northern areas, in resource-based towns and small

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* Source: C.M.H.C. Monthly Supplement, December 1976.

** Dennis & Fish (In Search of a Policy) - p. 80-81.

rural centres, people must continue to accept second-class housing standards because housing funds continue to be focused primarily upon starts in the larger centres - centres in which it is easier to generate and document impressive national housing statistics. In respect to public housing up to the early 1970s, Dennis & Fish note that "only 14% of units have gone into urban centres from 1,000 to 30,000 in size and which have one-third of the urban population. Virtually none had gone into rural areas (by 1971)", while for Entrepreneurical Section 15 (Limited Dividend) housing .... "only 9% have gone into centres of less than 25,000 people". As for A.H.O.P., including the $200 million innovative housing programme of the early 1970s... "almost all units were produced in major centres because of the emphasis on the need for a large volume of starts in a short period of time".*

In terms of supply, the issue is no longer simply a lack of adequate housing starts in absolute terms, but rather not enough of the right housing in the right locations and for groups who need it most. Increasingly this also means that there is not enough housing for those least able to pay, including the young, the elderly, single parent households, native people and other minority low-income groups in rural and remote areas and in Inner City areas.

C. While refusing to implement the recommendations of the Carter Commission Report by introducing a fair and equitable income tax policy in Canada in 1970, the Federal Liberal government with Tory support established taxation policies which simply encouraged and institutionalized speculation in land and other forms of real estate.

Under the provisions of the Income Tax Act of 1970, the homeowners investment in his or her own residence has been exempted from the capital gain provision. This has made homeownership a relatively more attractive asset than other types of investments and has been one of the factors that has contributed to the demand for housing and land. In the absence of appropriate policies to ensure that housing supply increased to meet this demand, housing and land prices have been rising much more rapidly than the general rate of inflation and the rate of growth of personal incomes. Another consequence of this tax break has been that many existing homeowners have sought to capture accrued capital gains through the purchase of larger and more luxurious housing. As a result of such demand, resources in the private construction sector have been diverted to the construction of such

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* Ibid, p. 9-11.

profitable luxury housing at the expense of supplying a larger quantity of lower priced housing to meet the housing needs of moderate income families and middle income first-time homebuyers.

D. Despite the emphasis which Federal Policy has placed upon private home ownership most households in urban Canada cannot afford to own their own home and in the larger urban centres, most households are in fact renters. During the 1960s rising interest rates played no small part in exacerbating this process. Interest rates on conventional mortgage loans increased from an average of 7% in 1962 to 10.16% in 1970 and to over 11.5% in 1974. The interest rate on N.H.A. loans in the period 1962 to 1970 increased from 6.5% to 9.79%.* From 1961 to 1970, where the consumer price index for Canada had risen from 100 to 129.7 in 1970 and 175.8 in 1975, the homeownership price index rose from 100 to 161.3 in 1970 and over - significantly above the consumer price index. The result was that the cost of an average N.H.A. new single-detached dwelling in Canada increased from $14,765 for 1,153 square feet of space in 1961 to $21,996 for 1,174 square feet of space in 1970 and $45,174 for 1,062 square feet of space in 1975.

Using C.M.H.C. criteria that a family should not spend more than 27% of their income on shelter, (gross debt income ratio) individuals who purchased a home under the N.H.A. in 1970 had to earn a minimum of $10,489.77 per annum in 1970. In 1968, slightly over 9% of all reported income earners in Canada reported incomes over $10,000. ** Consequently, while in 1961, 50% of the households in Canada could afford a basic N.H.A. house, in 1966 this figure decreased to 30% and in 1971 it decreased still further to 10% or less in most urban centres.

As for the 1973 A.H.O.P. programme, because of inflation and total dependence on the private sector for production, this programme has had relatively little effect on the groups it was originally supposed to serve. Between 1973-75 only 13.1% of the A.H.O.P. programme went to people earning $8,000 per annum. 22% of families in Canada fall into this category. The average house cost for this group was $24,980 and by 1975 the average house cost increased to $30,000. At these levels the debt income ratio for the $5 - $6,000. income groups was 32.4%, and for the $6 - $7,000, group was 27.6% in 1975.

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* C.M.H.C. Canadian Housing Statistics 1970 Tables.

** Department of National Revenue, 1970 Edition - Taxation Statistics, Ottawa. Queens Printer 1970, Table 2, p.10.

Originally introduced as a major new thrust in housing for moderate income households, A.H.O.P. has been used primarily as an economic pump primer for the private housing industry often on inferior suburban site locations. By the Federal Liberals continued refusal to finance new construction of dwelling units under A.H.O.P. anywhere except in C.M.H.C. designated suburban areas, many moderate income families, particularly in the larger urban centres, are being denied housing in areas which they would choose and might otherwise afford. Ironically, these same areas, which have older existing stock, often have under-utilized municipal services and good public transport. Instead, families who "qualify" for A.H.O.P. are being forced to move further and further out into the few suburbs where C.M.H.C. "approved" housing is available, often remote from jobs, public transport, schools, and adequate shopping. In this way moderate-income households are placed at a further economic and cultural disadvantage. The increased cost of land and consequent increases in housing in most urban areas has meant that A.H.O.P. has become increasingly ineffective. Meanwhile older liveable housing stock in the inner cities and core area which do not "qualify" under A.H.O.P. are left to be picked up at bargain prices by absentee owner/ speculators and "white painters" * to be rented out or sold at whatever prices the private market will bear.

E. "Until the 1950s small firms and individual house builders remained the norm in the early growth of Canadian cities". The need to mobilize large amounts of capital combined with a drive for larger profits spawned the development corporation in the late 1950s and early 60s. Unlike other western industrialized countries where alternative non-profit developmental entities such as co-operatives or public corporations had existed or were being created during the same period in North America emphasis was placed almost totally upon the private sector for housing production. Inevitably this has meant increasing size of firms, greater efficiency, and closer integration with private sources of capital ... and this process is continuing. What it has taken other economic sectors (e.g., transportation) "50 years or more to accomplish in terms of concentration of capital ..... was achieved

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* This is a process in which private speculators obtain inner-city properties in areas being improved at low prices, make minor cosmetic improvements, and sell the properties for a much higher price to upper income groups, thus also displacing the original residents.

in only 10 years by the development industry". This has resulted in "vertical integration of firms, the power to maintain inflated prices in the housing market, minimizing taxes through capital cost deductions, depreciation allowances, tax deferrals, omitted land appreciation planned obsolescence, and market domination through monoply and monopsony and consumer manipulation". *

F. While municipal services demand and cost have sharply increased taxes on family housing, rents in the private market have risen even faster. An elderly homeowner of limited means, wishing to sell a home and move into even a small apartment, discovers that rent increases will rapidly absorb what little savings and shelter security may have been achieved through home-ownership over the years. Consequently, despite the difficulties many senior citizens find in physically maintaining and paying municipal taxes on their homes, the cost of staying put for the low and moderate income elderly is less than the cost of moving into a private rental apartment with uncertain future rents. Meanwhile thousands of inner city classrooms remain empty and other urban services go under-utilized while many suburban areas are flooded with pressures for new schools and other community services for which neither private developers nor C.M.H.C. accept responsibility.

For those senior citizens without a home of their own, little savings, and only a pension and supplements to live on (i.e. $143 - $201 monthly), the housing picture in those areas of the country without interventionist provincial governments is grim indeed, and the inflationary period we are now experiencing has simply made matters worse. One room unsubsidized, fully serviced apartments, rent for upwards of $150.00 per month for a bed-sitting room or one-bedroom suite in most areas of the country. This means that full recovery rents may absorb in excess of 50% of income compared with rents in subsidized rental units which vary from 16.7 to 25% of income or $35.00 - $50.00 monthly (fully serviced) for an individual or $123.00/month for a couple who both receive pension and supplements. However, such reasonably priced housing units are relatively limited. For example: of the 231,456 dwellings started in Canada in 1976, with one form or another of Federal-Provincial participation, only about 3% were subsidized dwellings for senior citizens.

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* Highrise and Super Profits - Barker, Penney Seccombe, published by Dumont Press Graphix, 97 Victoria Street, Kitchener, Ontario, p.15.

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G. Toward the end of the 1960s, rapid increases in interest rates, rapid urbanization, massive land speculation*, spiralling land costs, and the increasingly monopolistic role of the private sector in the major urban centres resulted in a major crisis in housing. "While overall housing costs in Canada rose by about 80% between 1951 and 1968, the price of serviced land skyrocketed by almost 24% in the same period.** Between 1964 and 1969 in Metro Toronto, for example, land costs rose at an average rate of 14% per year.***

While it was becoming clear throughout the 1950s and 1960s that the average housing consumer of the 1970s and 1980s would never be able to afford adequate shelter at a reasonable proportion of income without more substantial and effective public intervention, successive Liberal and Tory governments have been consistently unable or unwilling to recognize the necessity of such intervention.

The New Democratic Party (and its predecessor the CCF), has pressed hard for more interventionistic housing and urban development policies ever since the 1930s. The New Democratic Party has firmly believed that through consultation on housing programmes with the provinces and municipalities, and through firm and continuing commitment to the provision of socially needed housing and the allocation of the necessary financial resources to carry out such programmes, these critical policy vacuums can be filled effectively by the non-profit and public sector. Through proper urban programme assistance and appropriate incentives to the provinces, a New Democratic Government could encourage energy and resource-efficient patterns of housing and urban development, and sane, rational, and economic urban environments.

H. Adequate housing doesn't simply mean more dwelling units. It also means well-planned, carefully designed residential areas, properly serviced land, adequate public transport options, and accessible community facilities. Few housing subdivisions in Canada in the past 20 - 30 years adequately satisfy these criteria. To date Federal and Provincial housing policies have often been based on the notion of the throw-away society. It has been

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* Report of the Federal Task Force on Housing & Urban Development, Queen's Printer, Ottawa, 1969.

** Ibid.

*** Highrise and Super Profits - Barker, Penney Seccombe, published by Dumont Press Graphix, 97 Victoria Street, Kitchener, Ontario, p.14

assumed that sufficient resources existed to compensate for the rundown or waste of housing resources in older developed areas. Often such older dwellings have been permitted to deteriorate prematurely, or reasonable mortgage financing to serve the needs of low and moderate income families and non-profit groups has been withheld from such areas. Meanwhile many new suburban fringe developments are Federally funded although designed and planned in ways which are wasteful in energy and transport costs and inadequate in respect to schools, parks, playgrounds, and other community facilities.

As a consequence of such short-sighted and inefficient Federally aided policies, present and future urban residents face not only the burdens of heavy capital costs and interest charges, but also rising operating costs, including escalating costs of heating and electrical energy, municipal taxes, user charges for water, public transport and other services. Liberal and Tory policies have managed to combine waste and inefficiency in planning with a tolerance of private sector profiteering in land and development - and they have managed to do all this in a period of high inflation when the effects of their mistakes are magnified many times. Such policy directions are downrigh irresponsible and can only deepen the present housing crisis and increase the future cost of ending the crisis.

I. By introducing housing legislation and regulations which have resulted in segregating client groups by types of housing or programmes, (e.g., P.H., Co-op, A.H.O.P., Urban Renewal, R.R.A.P., N.I.P., and E.P.H.), successive Federal governments have compounded the task of getting adequate housing to Canadians who are most in need. Such inflexible programme definitions have often served to intensify conflicts between various income groups struggling for shares of scarce housing and related urban resources and opportunities.

J. In the past fifteen years, Canadians have witnessed in each of the provinces the development of mechanisms parallel to those at the Federal level for housing design, planning, programming, and building inspection. In some instances, under the guise of decentralization, C.M.H.C. has created regional shadow agencies, duplicating those already established at the provincial level In many areas C.M.H.C. regional and local bureaucracies have achieved little other than to impose additional constraints in the housing development process. This bureaucratic proliferation also creates confusion in the public mind as to where responsibility for housing lies, and undermines community confidence in creative intervention by public sector agencies.

Citizens are unable to identify responsibility with appropriate levels of government and to hold those levels accountable for non-performance.

K. From the Second World War to the 1970s, housing policy in Canada has been seen by successive Federal governments simply as a mechanism to prime the pump of the national economy. During slack periods, the Federal government would simply reduce interest rates slightly and increase aggregate investment in housing, either through direct lending or indirect mortgage guarantees. During periods in which the economy was operating at a high level and unemployment was low, the Federal government, through the Bank of Canada, would increase interest rates and cut back investment in housing. Despite Federal claims to the contrary, in recent years, one carryover of this use of housing as an economic tap has been the refusal of successive Federal governments to make comprehensive multi-year commitments for funding socially needed housing. This has prevented housing funds, which are allocated to the provinces on an annual basis, to carryover within the same region if they are not completely spent in that region by the end of a calendar year. It has also kept provinces and municipalities and non-profit groups on a short string, inhibiting longer range housing, planning and programming. This roller coaster of off-again on-again Federal financing has intensified periodic declines in the residential construction sector increasing lay-offs, unemployment and erratic cycles of building construction.

The Federal government can no longer ignore the need to ensure longer term stability in both private and public areas of the residential construction sector. It is essential to the long-term well-being of both areas of this sector and to effective delivery of needed housing that Federal government policy be changed. Nothing less than an adequately funded multi-year Federal programme for each province or region will provide the kind of assurance needed for effective on-going housing, planning, and development programmes.

III. OBJECTIVES FOR NEW POLICY DIRECTION

A. Housing must be delivered efficiently rather than inefficiently. The inefficiencies in the present system need to be reduced substantially or eliminated entirely. These include super profits on housing development in the private sector, private profits from unearned increments on land-use changes generated by the public sector, inefficient and uneconomic planning

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and land servicing and inadequate environmental choice.

B. Housing is something which the private marketplace has demonstrated it is unable to provide for all or even most Canadians at a reasonable price. Consequently the community as a whole must ensure that housing is provided at whatever scale of intervention is required to house people in dwellings of reasonable quality, size, and numbers within a sound economic community structure. To achieve this, the public sector at different times, may have to act as planner, financier, entrepreneur developer, owner, contractor, and/or manager. Various roles must be worked out to achieve maximum local participation and control over the long term.

The mainstay alternative to direct public intervention would be co-operative and non-profit corporations with the private sector playing the role or roles it is best suited to provide. That is, private competition would be encouraged in those areas, such as building, construction, contracting and construction materials and supply, which are essentially non-monopolistic and which the private sector has demonstrated it can do competitively. Consequently, as public sector intervention increases, the private sector as expressed by the role of competitive builders, contractors and materials suppliers, would continue to expand.

C. Public intervention in the construction materials sector should also be expanded to provide competition in those areas which are presently controlled by private monopsonies. These include land, land servicing, cement, and certain other constituent inputs to the residential and related urban development process.

D. Community held residential equities should remain community property. This means that the majority of public funds directly invested in the housing sector should be invested substantially in public or non-profit equity controlled developments. These would include continuing co-operatives, non-profit building societies and provincial and municipal crown corporations.

E. Avoiding energy-inefficient housing and urban development, with its abnormal or forced expansion of energy production, can generate economies which will make it possible to shift the rate of investment significantly from the energy sector to the housing sector since it will not be necessary to cope with wasteful developments in urban energy and transport at current levels of growth.

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F. Housing development and construction activities should be planned on a continuous multi-year basis to ensure maximum utilization of human resources and stable employment in this important sector throughout the year.

G. Every effort should be made to provide opportunities for resident ownership of individual dwellings. This would include various forms of co-operative ownership as well as fee simple ownership of well designed condominiums, townhouses, cluster and court garden houses, zero lot line and conventional detached housing where economically feasible and appropriate.

H. Federal NDP policy recognizes that different cities and regions have different problems and characteristics unique to their particular historical, social, legal, environmental and/or economic conditions. A single Federal housing agency, no matter how sensitive, cannot be responsive to all of the different needs and circumstances of each area of the country. Consequently, Federal control and involvement in housing development should be subject only to meeting general national building and environmental guidelines. Housing, planning and delivery itself, should be a responsibility strictly of the provinces and regions concerned unless they specifically request Federal assistance.

I. It should be a national policy objective of the NDP to encourage stabilization and enhancement of the living environment of already developed urban areas. To this end appropriate funding and technical assistance should be available on request to assist in effective refurbishing, renovation, and where necessary, reconstruction of inner city areas. Every available Federal mechanism should be utilized and co-ordinated to assist the cities and provinces in this effort. Included should be such legislative instruments as the Railway Relocation Act and the National Harbours Act. Where necessary these mechanisms should be amended to increase their levels of funding and effectiveness.

J. To the greatest extent, possible feasible linkages to the domestic industrial sector should be maximized.

IV. SHORT-TERM MEASURES AND MECHANISMS

A New Democratic government should undertake the following short-term objectives in housing:

A. Increase needed supply by increasing production of non-profit rental or co-operative housing in urban areas and introduce measures to open up such stock to all income groups. This additional production should be built through encouragement of municipal or provincial public development corporations, housing co-operatives and trade union or community based non-profit organizations.

B. Refinance adequate existing housing stock for young families in areas where sufficient family housing already exists which can and should be purchased and/or rehabilitated to serve low and moderate income groups. It should also facilitate a smoother and less inflationary turnover of existing housing from older homeowners to younger families requiring housing for rental or ownership. It should achieve this objective through the mechanism of a public sector programme, which would acquire <u>strictly on a voluntary basis</u>, the single family dwellings of senior citizens who find themselves unable or unwilling to continue to maintain their own house. In exchange they would be provided among other things with a choice of reasonably priced housing alternatives appropriate to their special needs at no financial disadvantage to themselves.

C. <u>Fund more non-profit senior citizens housing, making such units available to senior citizen homeowners who are willing to sell their present dwellings to a public or non-profit agency</u> in return for the <u>guarantee</u> of an apartment or other appropriate housing at a <u>controlled rent for life</u> in the community in which they wish to continue to live.

D. Maintain stable year round employment in the residential construction industry <u>by introducing a winter housing construction incentive programme</u> to even out seasonal troughs caused by cut-backs in winter construction during the colder months.

E. Provide housing for physically disadvantaged groups in need, by introducing <u>a special programme for enriched facilities for housing for the physically disadvantaged</u>.

F. Introduce <u>a critical home repair assistance programme</u> based on similar programmes already proven effective by NDP Provincial governments in Manitoba and Saskatchewan. Such a programme would not designate particular areas but will be universal, geared to income and consumer-selective. It will emphasize grants and low-interest loans for critical repairs up to fixed limits.

G. Provide lowest interest financing for housing programmes such as continuing co-operatives, non-profits, and publicly owned housing which is designed to ensure controlled housing prices over the longer term.

H. Encourage the public sector to enter into the residential development process directly in areas where the private sector is unable to develop quality competitive alternatives for reasonably priced housing.

I. In periods of rapidly rising prices non-inflationary continuing co-ops provide an important form of non-market housing which helps to moderate prices. A Federal NDP government should offer participants in such co-ops tax credits or other economic advantage as a consequence of their agreement to forego the capital gains advantages of market housing.

These types of programme mechanisms are actually less costly in overall terms than conventional programmes because they involve more efficient use and allocation of public and private resources in a manner in which housing can be provided to groups most in need less wastefully and more equitably.

The following is a discussion quantifying immediate needs for housing and a means of satisfying them without generating inflation.

V. OVERALL HOUSING NEEDS, COSTS, AND FINANCING

This section examines a number of important questions which may be analyzed at the level of the economy as a whole.

- What annual rate of house-building does Canada need in the next five years?
- How much of this need is unlikely to be met because people's incomes are too low in relation to the cost of housing?
- What can the public sector do to translate the needs of low-income Canadians into effective demand?
- What would be the cost of public sector action, how would it be financed, and what would be its effect on inflation?
- What would be the overall implications of public sector action?

These are mainly macroeconomic questions. More detailed questions at the micro-level will be examined in subsequent sections.

What are Canada's Housing Requirements?

The most important determinant of housing requirements is the rate of formation of households. This in turn depends on population growth, immigration, the age structure of the population, and social trends involving an increase in the number of young people and old people who choose to form separate households. In deriving estimates of household formation for 1976-1981, the most important assumptions were:

- a continuation of recent trends in the formation of separate households by young and old people
- the absence of an income constraint which would force a reversal of these trends (i.e. it is assumed that people will not be prevented from forming separate households because of inadequate income).
- an average annual level of immigration of 160,000, which is less than the average of the past decade.

These assumptions yield an estimate of 291,000 new households per year between 1976 and 1981. It is also necessary to consider vacancies and stock adjustments brought about by conversions, demolitions, and abandonments. When these factors are included, we have the following picture:

	Average Annual HOusing Requirements, 1976-81
Household formation	
Families	163,000
Non-family households	128,000
Vacancy and stock adjustment	20,000
Total, excluding replacement of sub-standard housing	311,000

Unfortunately, there is a lack of data on the number of sub-standard housing units, and there is also a lack of criteria to define what is considered to be sub-standard. This serious gap in our knowledge makes 311,000 units per year an understatement of real needs. However, this understatement may be partially offset by a portion of the projected formation of non-family households which may be considered to be of relatively low priority in terms of need.

<u>What Should be the Role of the Public Sector</u>?

The housing requirements just projected will not be met in the absence of strong public sector participation. This is partly because of the structure of the housing industry, but mainly because many people with pressing need do not have the income to translate that need into demand.

There is a school of thought which argues that there is no real housing problem, but "only" a poverty problem. According to this view, if people's incomes are too low to enable them to pay for decent housing, the best solution is not to provide subsidized housing, but to increase incomes through the tax system or by other means. While this argument may have some validity in a situation where the private sector is truly competitive, it is not valid in cases of concentration and monopoly. Measures such as rent subsidies and subsidized mortgage rates serve to increase the money demand for housing without acting directly on the supply of housing. To the extent that the industry is monopolistic, a large part of these demand subsidies may take the form of price increases rather than increases in the quantity or quality of housing. Consequently, there is a need for both public housebuilding and measures to increase competition in the private sector.

Unfortunately, however, the federal government has not produced sufficient data to provide an accurate estimate of the required level of public sector house-building. We know, however, that in 1971, 306,000 low-income households either lacked or shared toilet and/or bath facilities. We also know that an additional 392,000 low-income tenants paid more than 35% of their income in rent. Together, these groups made up 12% of all Canadian households. We also know that since 1971, the cost of housing has gone up at a faster rate than incomes of low-income people, so that the situation has worsened in the past six years.

However, it must be admitted that despite these suggestive clues, we have no way of providing an accurate estimate of the need for public housebuilding. Nevertheless, given the estimated total annual requirement of 311,000 units in relation to actual construction figures of the past few years, given the figures just cited on low-income households in need, given the needs of moderate income families which have not been considered, given the structure of the private sector, and given the dramatic price increases of the past few years, it is obvious that the need for public sector construction is very large. However, rather than attempt the impossible task of estimating the precise need for public sector construction we shall assume that the public sector undertakes to construct about one third of the desired number of housing units, and we shall examine the implications of such an undertaking. It should be emphasized, however, that such a programme would only be effective in the long run if it were accompanied by measures to increase the degree of competition in the private sector.

How Much Would the Program Cost?

We now examine the cost of a hypothetical public program designed to build an additional 60,000 housing units per year. In 1974, C.M.H.C. provided funding assistance for approximately 42,000 housing units, so that if this volume of activity were continued (although perhaps in a different form), total public sector activity would come to about 100,000 units per year. This would leave just over 200,000 units for the private sector to fund if the target level of 311,000 were to be met.

Clearly the cost of such a program would depend on land and construction costs, and these in turn would depend partly on actions taken to curb the power of developers and to speed up the provision of serviced land by municipalities (these are considered in subsequent sections). We assume an average dwelling size of 1100 square feet for families and 500 square feet for the households, and it is assumed that average density is 15 units per acre. Under these assumptions, the total capital cost of building 60,000 units would be as follows:

	Land Cost Per Acre		
Construction Cost Per Square Foot	$125,000 (Toronto)	$70,000 (Winnipeg)	$40,000 (Brandon)
$40	$2.7 billion	$2.4 billion	$2.3 billion
$30	$2.1 billion	$1.9 billion	$1.8 billion

This, depending on land and construction costs, the capital cost of building 60,000 units per year would be between $1.8 billion and $2.7 billion. This clearly points to the need for measures to keep these costs down.

Where will the Money come From?

In round numbers, the above table indicates a cost of building 60,000 housing units of approximately $2 billion. Of this amount, about $1.6 billion would be construction costs and $400 million would be land costs.

A significant portion of this cost would be financed from additional tax revenue and reduced U.I.C. payments arising from the higher incomes generated by the program. Thus, applying the Economic Council's multiplier of 1.63 to the construction costs and assuming (conservatively) that tax revenues amount to 25% of the increase in G.N.P., government revenues would rise by $750 million. In addition, reductions in U.I.C. payments to construction workers may be estimated at about $80 million.

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The net cost of the programme may therefore be estimated as follows:

Construction Costs	$ 1,600 million
Land Costs	400
Additional Tax revenues	(750)
Lower U.I.C. payments	(80)
Net Cost to Government, <u>assuming no sale of houses</u>	$ 1,170 million

Thus, if no revenue were derived from the sale of houses or if rental payments just offset operating costs, then the net annual capital cost to the government would be $1.2 billion. To the extent that houses were sold, this cost would be reduced correspondingly. For example, if one quarter of the houses were sold at cost, the net cost would be reduced from $1.2 billion to $700 million.

There are many ways in which this net cost could be financed. The government could borrow the money in the bond market, it could redirect private funds from, say, nonresidential contruction, it could raise taxes, or it could increase the money supply. The desirable financing mix would depend on a number of factors, particularly the current level of unemployment in the construction industry and in the economy as a whole. In general, however, the amount of money involved would not present a serious problem. The expansionary effect of the programme would create additional savings of at least $250 million, and any negative effect on private investment caused by upward pressure on interest rates would be offset by the positive effect of a faster growing economy. A financing requirement of $700 million is only about 7% of current levels of nonresidential construction, so that a partial redirection of funds through the banks would not represent a very large change. Even according to monetarist doctrine, some expansion of the money supply is consistent with price stability in the face of a growing level of real output. Thus, financing would present no major obstacle, especially under the conditions of very high unemployment that have prevailed in Canada throughout most of the 1970s.

<u>Would the Programme be Inflationary?</u>

The answer to this question would depend on the method of financing in combination with the state of the economy at the time of construction. However, given the extremely high levels of unemployment in recent years (especially in the construction industry), it is very likely that if the housing programme had been undertaken in the past few years, its net effect on inflation would have been negative.

In the first place, the additional supply of housing caused by the programme would, according to one econometric estimate, have reduced the annual rate of increase of house prices by about 4 1/2 percentage points.

Secondly, a detailed examination of the period of the recent housing slump (second half of 1974 and first half of 1975) revealed that the construction of an additional 65,000 units during this period would have caused no significant bottlenecks. In fact, the level of unemployment of construction workers would have remained higher than in the previous year, and domestic shipments of key building materials would have remained lower in physical terms. Of course, if unemployment among construction workers were low, then the programme could be inflationary if construction activity were not reduced elsewhere in the economy or if the supply of workers were not somehow increased.

In brief, then, the programme would be strongly anti-inflationary in its direct impact on housing costs via an increase in supply. On the other hand, if there were strong demand for construction workers elsewhere in the economy, the programme could be inflationary unless this demand was reduced by diverting funds from non-residential to residential construction. The general level of unemployment in construction has been very high in recent years, but this situation may change if large projects such as northern pipelines go ahead. Finally, as already noted, adequate supplies of serviced land must be forthcoming if the programme is not to contribute to a further escalation of land prices.

What Would be the Implications of the Programme?

Approximately one third of housing construction would take place within the public sector. Over time, the share of publicly constructed housing in the total housing stock would rise towards one third, and in later years it would be possible to increase the share of the public sector further.

Providing the overall target of just over 300,000 units were met, rising supply would prevent inflationary increases in rents and house prices. If the unemployment situation remained as bad as it has been in the past few years, the programme could be undertaken at virtually no cost in terms of reduction of activity elsewhere in the economy: The real cost to society would approach zero, and the inflationary consequence of increased demand

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for labour and materials would be negligible. If unemployment were low, it would be necessary to redirect funds from other sectors (e.g. non-residential construction) or to increase taxation in order to avoid inflation. In either case, it would be necessary to ensure an adequate supply of serviced land. The financing of the programme would present no serious difficulties.

The additional stock of publicly constructed housing could be partly rented to those in greatest need and partly sold (with certain safeguards) or rented to moderate income households. If combined with programmes to renovate existing dwellings, action to ensure an adequate supply of serviced land, and action to make the private sector more competitive, such a programme would provide significant benefits to Canadian families. It would do this both directly for those living in the publicly constructed housing and indirectly for other families who would benefit from the dampening effect of increased supply on inflation in the housing sector.

VI. LONG TERM MEASURES

A. A New National Housing & Urban Act:

Most of the provinces and regions of Canada have reached a point at which their capacities to implement housing and urban development programmes have reached a very sophisticated level of development. In a few others, and in the North West Territories, assistance from C.M.H.C. in housing delivery including land appraisal, site planning engineering of services, architectural design review, construction supervision and inspection of dwellings will no doubt continue to be required for some years. In most of the provinces, however, sufficient skills and capability already exist or are being developed at the provincial level to carry out these tasks without the necessity of further assistance or involvement by a Federal agency. Furthermore, under the B.N.A. the provinces have the legal right to exercise these responsibilities.

A careful review of the programmes outlined within these objectives would indicate that virtually all of them could be delivered effectively at the provincial level solely with Federal funding, monetary, and taxation policies serving as the major investment and constraint mechanism to modify the rate of urban development in particular provinces or regions.

The New Democratic Party should introduce a new National Housing and Urban Act which would recognize that the major legal and constitutional

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responsibility for programmes and delivery in these areas rests with the provinces and the municipalities they designate. On the other hand it should also recognize that Federal fiscal and monetary policies through their impact on money supply, interest rates and inflation, have far-reaching consequences for many aspects of housing and the provision of municipal services.

A new National Housing and Urban Act should clearly deal with the following matters of concern in housing policy:

(1) The Central Bank should use monetary policy to achieve National housing and related objectives. This would include establishing a 5 - 7 year planning time frame for allocations of housing resources for each region.

(2) The multi-year fiscal arrangements related to subsidies and taxation should be established on a "statutory" basis, rather than on the present "annual budgetary" basis. Such a statutory arrangement can be similar to the Fiscal Arrangements Act or the arrangements for cost-sharing in the field of health and welfare.

(3) The new Act should take positive account of the bi-level or tri-level nature of responsibility for housing and urban development in Canada. It would not only recognize the constitutional right of the provinces to exercise their jurisdictional authority over property and land, but would put the responsibility for housing delivery squarely on the shoulders of the provinces and provide adequate funding from the Federal government to carry out this responsibility.

(4) Under the Act, Central Mortgage and Housing should act as a "central bank" for financing housing and urban infrastructure. C.M.H.C. will be vested with the powers of a central bank to lend funds to the provinces to finance urban and municipal residential and related development, as well as to control all mortgage lending by private banks, trust companies and other lenders of funds for housing and related purposes.

In the role of central bank, C.M.H.C. would be responsible for all mortgage issuance and for approving mortgage lending carried out by private lenders and including both new and

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used housing. All private lenders would have to lend under the umbrella of the new National Housing and Urban Act, subject to approval of the provincial housing corporations. In order to ensure sufficient funding for housing in areas of greatest need, at least one-half of all mortgage funds should be lent by government (currently the level is 1/3 by government). Control of the pool of savings in the community by the federal and provincial governments would ensure that needed funds are available for socially necessary housing purposes and not predominately for luxury housing to serve a relatively affluent few who require and can afford new housing.

(5) Under a new National Housing Act, a restructured C.M.H.C. would not only be concerned with funding of volumes of residential mortgages, but, through the provinces, would finance municipal and urban development, using block funds in the form of loan capital at preferred interest rates.

With this support from C.M.H.C., the provinces can directly influence all private mortgage lending activity in their respective regions. It would also mean that if a particular province wishes to borrow significant quantities of funds for housing purposes, it can go to the federal agency, C.M.H.C., and be confident of obtaining such funds on a multi-year programme basis, provided provincial programmes correspond with overall national objectives and priorities.

It would be the task of the Federal level to ensure that adequate resources to do the job in each region are equitably distributed across the country to finance what needs to be developed based upon certain minimum standards of building construction and housing design (e.g., the National Building Code and proposed National Environmental Design Standards).

Thus it would be quite reasonable and feasible for an NDP Federal Government to enter into negotiations with the provinces on the basis of the following priorities and be reasonably certain that they could be achieved:

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a) Sufficient quantities of good quality of affordable housing must be delivered in all regions of Canada.

b) Chronic inflation in housing prices originating from inequitable distribution of housing resources must be eliminated.

c) Energy and resource-efficient patterns or urban development for housing and related urban development must be encouraged.

In this way the new Housing Act could become in effect, a national housing plan in which the provinces could establish priorities for detailed housing programme delivery in their particular jurisdictions consistent with overall national development objectives. Giving the provinces real financial and decision making powers with which to tackle specific regional problems in a fundamental way will make it possible to significantly improve conditions in the housing sector over the long term.

(6) A new National Housing and Urban Act would restructure the fiscal arrangements for the taxing and subsidizing of housing and urban development. Under the new housing policy, the question of income subsidies can be separated from that of supply subsidies.

Income subsidies or shelter allowances would take the form of direct transfers to individuals. Such shelter allowances would not be the responsibility of the housing mechanism or agency per se, but would be allocated through other appropriate agencies, possibly through the income tax system. In this way, individual householders would be able to make their own choices about where they wish to live without being forced by income or other rigid programme constraints to live in designated projects or areas. By opening up all publicly funded housing to serve the widest range of income groups, housing segregation would be effectively reduced.

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B. A National Housing Inventory & Housing Information Bank:

If the Canadian people are to deal with their local shelter problems more effectively, it is essential that they be provided with sufficient information so that they can compare their areas' performance relative to national or other regional criteria or standards.

In collaboration with the provinces, an NDP Federal government should develop a national housing inventory and housing information bank to provide detailed accessible housing statistics by province and municipality. Such a system keyed into computerized land title and assessment information system in each province would be continuously self-updating and would provide an important means of periodic monitoring of significant changes in housing supply and community needs.

C. Planning to Overcome Regional & Economic Disparities in Housing:

It should be unnecessary for people to leave smaller and remote communities or the inner cities of Canada simply because they can't find affordable housing adequate to their needs. Similarly, it should be unnecessary for communities and regions to go without adequate municipal services and land for housing because successive Federal Liberal and Tory governments provide funding support primarily in new suburbs.

A New Democratic Government should take appropriate steps to correct imbalances and disparities between provinces and particular regions or groups. In consultation and negotiations with the provinces it can attempt to ensure that smaller rural and remote centres obtain a fair share of housing and services funds and that, where necessary, special funding programmes are introduced to overcome disparities in housing investment between various areas and regions of the country. Geographic distribution of housing resources would take into account climate, need for housing in absolute terms, per capita populations, and remoteness or relative accessibility. Those areas which would receive the greatest emphasis will obviously be those facing most adverse winter climate conditions, high energy costs, critical shortages of housing for particular need groups and high levels of unemployment particularly in the construction sector.

D. Non-Profit Housing:

It should be the policy of the NDP to attempt to achieve in Canada, by 1985, development, ownership, control and/or management by public or non-profit agencies of at least 35 - 40% of the existing housing

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sector output including co-operatives. Such agencies would include crown corporations, municipalities, non-profit community organizations and trade unions.

It should be a national objective by 1985 to have at least 25% - 30% of all housing stock in Canada in non-inflationary forms of tenure such as continuing co-operatives owned and controlled by the inhabitants or a non-profit basis and under conditions in which equities built up over time are ploughed back into investment in more socially needed housing.

E. Co-operative Housing:

An NDP government should have several objectives with regard to housing. It should attempt to:

(1) Substantially increase the proportion of funds available to co-operatives under N.H.A. In the case of co-operatives, funds should be available for new or used housing.

(2) Provide seed money for co-operative "mother societies" as well as daughter co-operatives, with the emphasis upon assistance for planning, programming and land banking with the provision that a reasonable proportion of stock in every co-operative can be made available to all income groups and will include low and moderate income families.

(3) Provide producer subsidies to housing co-operatives in high-cost urban areas as well as in the north.

F. Full Recovery Rental Housing:

A basic objective of housing as a full recovery programme under a New Democratic government should be to ensure that housing which generates private profits pay for itself without subsidy. It is a well-known fact that the average renter in Canada has a much lower net worth than the average homeowner. This is because taxation and housing policies to date have tended to benefit wealthier homeowners, who do not pay capital gains tax, at the expense of renters, who in most larger cities today represent an increasing majority of the population, yet pay disproportionally high housing costs.

An NDP Federal government should not subsidize housing which is on the market and will be lost to particular target income groups after the first buyer or in 15 years (as in the case of rental programmes).

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G. Crown Corporation for Construction Materials:

In many areas of Canada the existing private sector is non-competitive in price and quality in many constituent elements of the building construction process. These elements include: cement, certain types of glass, chemically based insulation materials, certain wood products, as well as electrical and plumbing components, fixtures and equipment.

This is often characterized by monopsony, inefficient use of materials (cedar for basement panelling instead of for salt and weather-resistant exterior uses in coastal areas and the north, high prices for certain commodities (e.g., cement), unfavourable balance of payments with countries to whom we export raw materials and import finished goods, and a lack of skilled jobs in industries which should be processing and adding value to building materials in Canada).

At the same time, because of monopsony and other market "inefficiences", it is difficult for small firms to get into the building materials and supply business and to stay in business and innovate because competitive entrepreneurship is stifled by vertically integrated multinationals who control market technology, limit competition, and export their profits out of the country.

A second problem has to do with the fact that a great many basic construction materials are produced in Canada in raw or semi-finished form and are then shipped out of the country for processing into high value goods (and are then imported back to Canada in finished form at considerable loss to the economy in terms of exported jobs, lost technical innovation and balance of payments.)

Government, non-profit and co-operative intervention in the urban development sector including housing, schools, public works, hospitals, highways, airports, railways, and other works including the construction of various non-profit and co-operative dwellings could provide an important basic market for production and consumption of Canadian manufactured building materials and products, as well as serving as a prime to stockpile and distribute certain materials which are currently monopsonies (e.g., cement, and related products). Only public intervention at a sufficiently large scale can make it possible to rationalize certain aspects of the building materials industry in Canada, achieve significant economies of scale,

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encourage technical innovation appropriate to the Canadian climate and environmental conditions, reduce the rate of imports of high value commodities through substitution of effective locally and regionally produced competitive alternatives, maximize employment opportunities for Canadians in this important subsector of the building industry and ensure fair and equitable allocation of materials to various regions of the country in times of scarcity and rising world prices.

To this end, an NDP Federal government should establish a Federal Crown Corporation for building and construction materials manufacture and distribution - in particular for those materials which are costly to import in terms of balance of payments and which have in the past not been produced at sufficiently competitive prices in Canada because of size of sub-markets. (e.g., plumbing and electrical supplies). Such a corporation will be empowered to enter into long-term agreements with provincial corporations. As such it should act to provide supplies of new or recycled material in bulk to the respective public corporations as well as to small builders (e.g., cement, glass, conduit, pipe, lumber, plywood) and to assist provincial crown or municipal corporations capable of contributing some of the components of such a national materials and supply policy. Such a corporation would begin at a limited scale working at the worst problems first and gradually, as necessary, would enter into other components of the construction sector if and when it became necessary.

H. Revised National Building Code:

The New Democrats will revise and improve the National Building Code to take greater account of current energy conservation needs and standards for particular climatic and/or energy-scarce regions.

I. An Environmental Code:

A Federal NDP government should establish in conjunction with the provinces, an Environmental Code, providing for a base level of site planning and design which plans of housing and subdivisions must meet to qualify for Federal funding under provisions of a revised N.H.A. Such a code would include objectives for environmental pollution; open space relative to dwelling units; the neighbourhood, play space within the community; pedestrian safety and access; proximity to day care, nursery and education facilities; access to public transport; and energy conservation which arises from sound planning.

* * * * * * *

Food and Agriculture

FOOD AND AGRICULTURE DISCUSSION PAPER

Corporate Concentration - - - - -

Marketing Boards- - - - - - - - -

Stabilization - - - - - - - - - -

Land - - - - - - - - - - - - - -

Credit- - - - - - - - - - - - - -

Energy- - - - - - - - - - - - - -

Nutrition - - - - - - - - - - - -

Food Aid - - - - - - - - - - - -

New Democrats' interest in national food policy is shared by people with widely divergent views on the role of government in the food economy.

It has been argued that Canada has no national food policy. However, the entire collection of laws, regulations and institutional arrangements that affect the food system in fact forms the national policy. If there are no provisions for specific purposes, the implied policy is that none are needed.

Those who say that Canada needs a comprehensive food policy are in effect saying that we ought to make policy more explicit.

Government's confusion about its goals has led to a hostile situation in which the pool of goodwill normally found between consumers and farmers is rapidly running dry.

A national food policy concerned with equity for both groups will have these goals:

(a) It should aim at providing Canadians with an abundant supply of safe and nutritious food at reasonable and fairly stable prices. (In other words, it should be fair to consumers and to the taxpaying public.)

(b) A national food policy should aim at providing farmers with reasonable returns for their efforts and with reasonable and fairly stable incomes. It would strengthen the economic and social stability of family farms and of rural communities. (In other words, it should be fair to farmers.)

(c) A national food policy should aim at making the best use of our land as well as the capital and the people employed in agriculture.

(d) A national food policy should take into account the hopes and needs of people in the developing countries and should be consistent with international efforts to bring stability in the world trade in food products and to provide security in the world food supply.

The choice of mechanisms to implement these goals is basically between reliance on market forces and a planned and orderly marketing system for agricultural products.

Complete reliance on market forces would be a substitute for a national food policy. If market forces determine who will produce what, how much and at what prices, they will also determine farmers' incomes, consumer prices and the nutritional value of the end product.

History is proof that the free operation of market forces will not provide adequate supplies of nutritious food at reasonable prices and will not provide adequate, stable incomes to farmers. On the contrary, the system has brought about or allowed widespread hunger and poverty in many lands, malnutrition at home, instability in consumer prices and farm incomes, waste of land and human resources and the demise of countless rural communities.

No government anywhere in the modern world has found it possible to maintain a complete hands-off policy. Where the Canadian government has failed to act, powerful corporate interests have stepped in to "plan" the food economy for their private ends.

This has led to a high degree of corporate concentration in Canada's food economy.

Corporate Concentration

Farmers have been aware for decades that they face an uncompetitive environment. Widespread protest on the Prairies led to the establishment of a Royal Commission on Farm Machinery in the late 1960s. The Commission's report draws a classic picture of oligopoly--domination and control by a few large firms--in the machinery industry.

For important products such as tractors and combines the major companies have kept their prices high in relation to manufacturing costs. The report describes high investment in distribution, emphasis on non-price competition, failure to fully exploit economies of scale and to achieve maximum technical efficiency.

Farm machinery is a substantial factor in farm costs--in 1975 total investment amounted to 15 percent of total farm investment. The costs associated with oligopoly reverberate throughout the entire food system--in terms of higher input costs to farmers, lower net farm incomes and higher food prices for consumers.

Further along the food chain--between farmers and consumers--stands a massive complex of highly concentrated, tightly linked processing, distributing and retailing firms.

In the food and beverage industry, the share of the national market controlled by the top four firms varies from 29 percent for dairy products to

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Concentration in the Food and Beverage Industry, 1965 & 1970

Industry	*Firms*		*Plants*		*Percent of Shipments* Top 4		Top 8	
	1965	1970	1965	1970	1965	1970	1965	1970
Slaughtering and Meat Processing	365	407	399	453	58	53	68	62
Poultry Processors	137	86	150	102	24	37	38	53
Dairy Factories and Cheese	1165	643	1421	880	25	29	35	42
Fruit & Vegetable Canners	266	187	313	238	39	42	52	58
Feed Manufacturers	739	647	855	789	28	29	38	39
Flour Mills & Breakfast Cereals	36	32	51	51	80	70	90	88
Biscuit Manufacturers	36	34	44	42	67	68	84	84
Bakeries	2376	1857	2465	1921	32	31	44	45
Confectionery Manufacturers	173	132	180	139	47	53	65	72
Sugar Refineries	8	7	13	14	95	95	100	100
Vegetable Oil Mills	10	10	12	10	81	78	100	100
Miscellaneous Food Manufacturers	240	228	272	275	33	34	48	50
Soft Drink Manufacturers	410	333	470	395	41	46	48	54
Distilleries	13	12	22	27	84	86	96	98
Breweries	11	9	52	42	95	94	99	100
Wineries	13	14	19	22	71	64	95	95
Totals/Averages	5996	4638	6738	5400	56	57	69	71

Note: Statistics Canada does not provide figures for top 4 and top 8 firms for Breakfast Cereal Manufacturers, Sugar Refineries and Vegetable Oil Mills. Estimates are from industry sources.
The franchise system, as exists in the soft drink industry, grossly misrepresents the degree of concentration and foreign ownership.

Department of Consumer and Corporate Affairs. *Concentration in the Manufacturing Industries of Canada.* Ottawa: The Queen's Printer. 1971. Appendix. Table A-1: Statistics Canada. *Industrial Organization and Concentration in the Manufacturing, Mining and Logging Industries*, 1970. Cat. 31-402. Ottawa: Information Canada, December 1975.

Regional Concentration in the Food and Beverage Industries, 1965

Industry	(Shipments) *Share of Top 4*	*Share of Top 8*
Slaughtering and Meat Processors	76	96
Poultry Processors	60	80
Dairy Factories and Cheese Manufacturers	67	81
Fruit and Vegetable Canners and Preservers	53	73
Flour Mills	83	99
Bakeries	46	55
Confectionery Manufacturers	66	82
Miscellaneous Food Manufacturers	52	72
Soft Drink Manufacturers	53	75
Breweries	93	100
Industry Averages	65	81

Note: These are the only industries covered by the study.

Department of Consumer and Corporate Affairs, *Concentration in the Manufacturing Industries of Canada*. Ottawa: The Queen's Printer, 1971, Appendix, Table A-7.

Source: John W. Warnock, "The Political Economy of The Food Industry in Canada: Oligopoly and American Domination" Volume 11 - No. 4

Definitions

Oligopoly: An oligopoly implies a situation in which a relatively few corporations control the majority of the sales, assets, and revenues of a particular industrial sector. J.S. Bain's classification is traditionally used to measure the degree of oligopoly. Under this system, an industry is judged by the percentage of sales, assets, profits or employees held by the four largest firms. The classification is as follows:

(1)--75% to 100% - very highly concentrated oligopoly
(2)--65% to 75% - high concentration oligopoly
(3)--50% to 65% - high-moderate oligopoly
(4)--35% to 50% - low-grade oligopoly
(5)--under 35% - unconcentrated

Diversification: This term implies the re-investment of retained earnings in other business concerns. There need be no particular connection between the primary business and that into which it buys. Thus, we see that Boeing Corp., in addition to airplanes, is also into chickens.

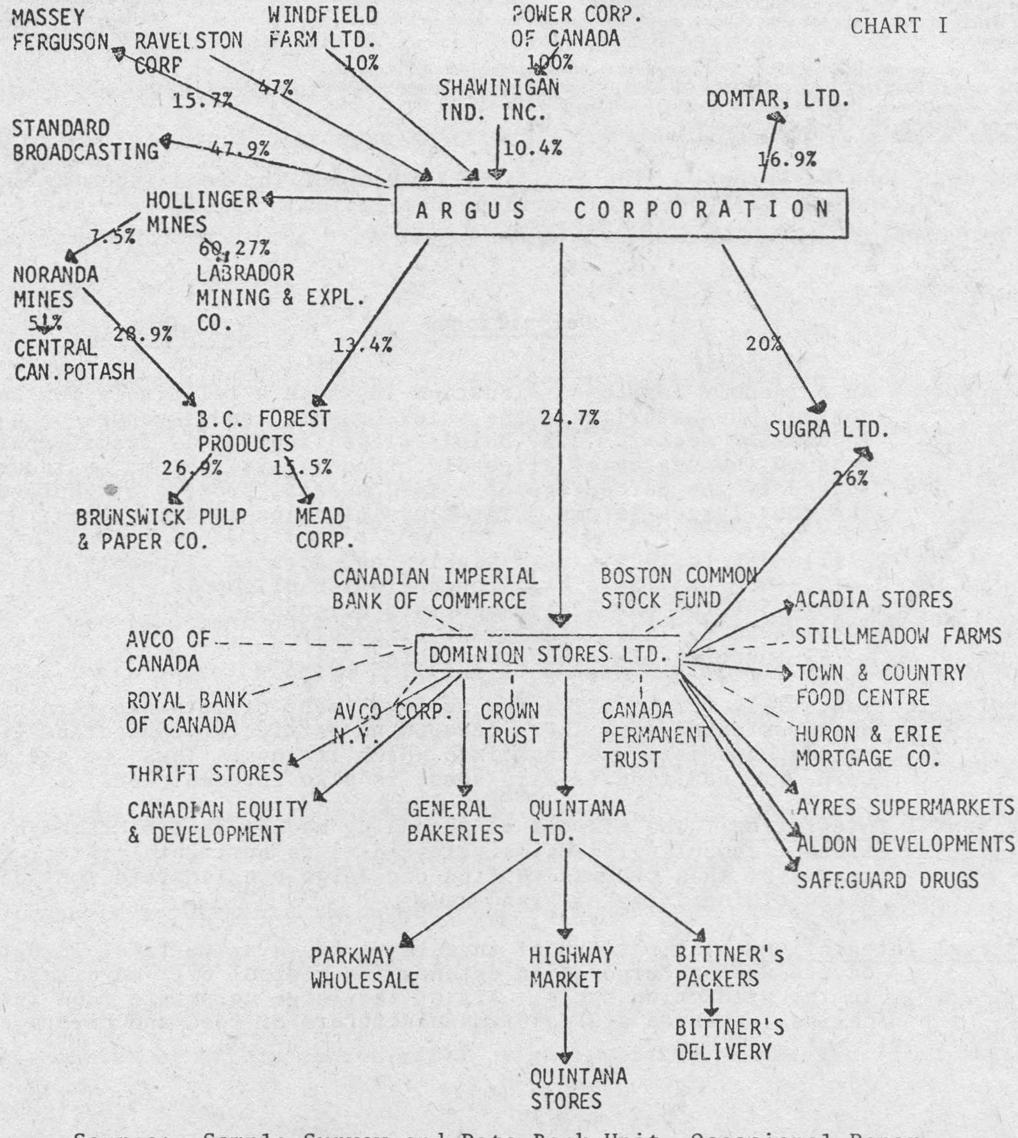
Horizontal Integration: The process of extending market control through acquisition of competing firms is referred to as horizontal integration. As a result of this process we find one large conglomerate controlling an overwhelming array of brand names.

Vertical Integration: The pattern of investment known as vertical integration occurs when a corporation extends its control over more than one stage in the production cycle. All of the large corporate food retailing chains in Canada are major manufacturers of food and beverage products.

over 80 percent for the flour and breakfast cereals, vegetable oil mills, sugar refineries, distilleries and breweries. The four largest firms in the tobacco industry share over 90 percent of the national market and in recent years firms in this industry have moved into the food and beverage area.

Large firms are diversified and operate in many different food and non-food industries, so statistics showing the share of each individual industry by the top four firms don't present a true picture of economic concentration. Charts I and II show how two food conglomerates have diversified their holdings and extended their control into the whole food system.

CHART I

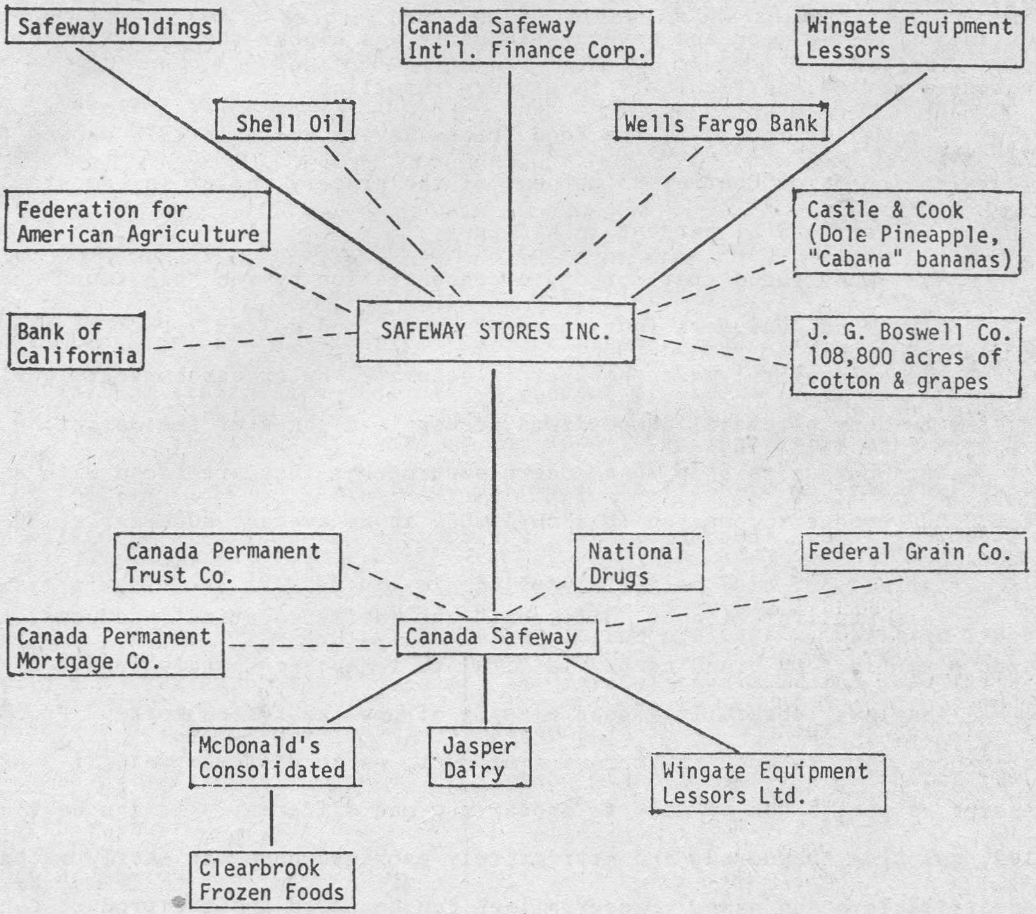


Source: Sample Survey and Data Bank Unit, Occasional Paper No. 1 - 1974, "The Corporate Food Industry in Canada: Some Data on Ownership & Directorate Interlocks" Regina: University of Saskatchewan

THE CORPORATE FOOD INDUSTRY IN CANADA

OWNERSHIP AND DIRECTORATE INTERLOCKS

CHART II



Net Sales (1972): $5,358,836,647

Net Income: 80,178,853

Operates: 2,291 retail outlets (as of 1972); 22 distribution warehouses, 42 freestanding warehouses; 1,920 trailer combinations; 128 manufacturing and processing facilities, including 18 produce prepacking plants; 16 bakeries; 19 fluid milk, 17 ice cream plants; 5 soft drink bottling plants; 4 coffee roasting plants and 6 egg candlers.

(a) Dotted lines have been used to note directorship linkages which means that those firms connected by a dotted line share one or more common directors.

(b) Solid lines represent the complete ownership of that firm by the parent corporation.

(c) This chart shows that processing, wholesaling, and retailing can all be done within a single corporate body, so that all the profits accumulated at each stage of the process of transferring food from the producer to the consumer are actually concentrated within a single corporate entity. This also means that the corporation as a whole does not suffer if one aspect of it, for instance processing, has a bad year, and the overall investment remains secure.

Source: Sample Survey and Data Bank Unit, Occasional Paper No. 1 - 1974, "The Corporate Food Industry in Canada: Some Data on Ownership & Directorate Interlocks" Regina: University of Saskatchewan

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A 1971 study by Consumer and Corporate Affairs found that regional concentration in the food and beverage industry was higher than the figures for the national market, particularly in grocery retailing.

The Mallen report to the Food Prices Review Board in 1976 showed that the four leading firms control 93 percent of the grocery market in Edmonton, 92 percent in Calgary and 81 percent in Winnipeg.

The study found that corporate concentration by the "big four" chains cost Canada's urban consumers four cents of their food dollar. Part of this cost came from excess profits; most, however is generated by excess capacity built into the system to deny potential competitors access to a share of the market.

When consumers shop in a modern supermarket they are faced with an average 8,000 products compared to about 3,000 in an average supermarket 30 years ago.

This proliferation of "different" but nearly identical products, identified and advertised by brand names, is vital to today's corporate food system.

The lowly potato is a good example of how the system works. Processing is introduced, not so much to improve a product, as to differentiate it. After processing, a potato can be made to appear new and different. It can be flavoured, rippled, coloured, powdered, and attractively packaged under an easily recognizable and advertisable brand name. Preservatives can be added and the product can be packaged so that it will last longer and handle more easily than raw potatoes.

A premium price can be commanded, and some of those profits funnelled back into more advertising. Sales are increased and so is profitability.

The logic of this system leads to an inherent bias in food advertising towards foods which are highly processed, more easily stored, handled and transported and less nutritious. Table III shows that 22 firms in the food and beverage field accounted for $67 million or around 47 percent of the spending reported by the top 50 corporations.

TABLE III

Largest Food & Beverage Advertisers in Canada, 1970

Rank	*Company*	*Ownership/control*	*Spending*
2.	Proctor & Gamble Co. of Canada	U.S.	$6,198,203
3.	General Food Ltd.	U.S.	5,686,946
4.	Canadian Breweries	U.K./S.A.	5,655,014
5.	IMASCO Ltd.	U.K.	4,984,007
6.	Warner-Lambert Canada Ltd.	U.S.	4,623,898
7.	Molson Industries Ltd.	Canada	4,362,022
10.	Kraft Foods Ltd.	U.S.	3,862,013
16.	Benson & Hedges Canada Ltd.	U.S.	3,312,541
18.	Lever Brothers Ltd.	U.K.	3,031,671
22.	Kellogg Co. of Canada	U.S.	2,855,227
26.	Nestlé Canada Ltd.	Switzerland	2,241,254
27.	Coca-Cola Ltd.	U.S.	2,414,472
28.	Standard Brands Ltd.	U.S.	2,356,370
33.	Labatt Breweries of Canada	Canada	2,184,057
35.	Seagrams Co. Ltd.	Canada	2,129,524
36.	Campbell Soup Co.	U.S.	1,937,270
37.	Dominion Stores Ltd.	Canada	1,842,280
39.	Quaker Oats Co. of Canada Ltd.	U.S.	1,790,170
42.	Salada Foods Ltd.	U.S.	1,593,684
45.	Wm. Wrigley Jr. Co. Ltd.	U.S.	1,480,845
46.	Hiram Walker-Gooderham & Worts	Canada	1,476,319
50.	Nabisco Ltd.	U.S.	1,367,340

Source: Elliott Research Corporation, Toronto. Re-printed in *The Financial Post*, May 8, 1971. A

Note: Total spending reported by the top 50 corporations was $142.9 million. Of this, the 22 firms in the food and beverage field accounted for $67 million or around 47%. The six Canadian-controlled firms accounted for only 21% of spending by the food and beverage firms listed above.

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This advertising in itself adds costs to the food system. Containers and packages in hundreds of different shapes and sizes used to differentiate one food product from another account for one-quarter of food processing costs and make comparison shopping difficult for the price conscious consumer. Only strong government action to standardize container size and shape will reduce these costs.

Ad-created brand preferences prevent entry into the market by new firms or force producers to market through an established retailer. The farmer-owned Granby Co-op, one of the country's largest cheese producers, markets all its cheese through Kraft which controls 80 percent of cheese sales in Canada.

Some of the other costs of the food retailing system have been shifted to the taxpayer. Costs incurred by shoppers who drive to supermarkets where once they walked to a neighbourhood store and garbage disposal costs for convenience packaging have been shifted off of the food bill and onto the tax bill.

Growing costs and concentration in the processing, distribution and retailing sector have combined to cut the farmer's share of the consumer's food dollar from 60 percent in 1949 to 37 percent in 1973.

Farmers have responded by forming marketing boards and using their collective strength to improve their bargaining position.

Marketing Boards

The National Anti-Poverty Organization, in its 1976 call for a national food policy, said pessimistically that, "The power of the corporations, encouraged by governments, has doomed any success marketing boards may hope to achieve." "Marketing boards have been widely criticized and found inadequate to deal with the unchallenged strength of the food industry. For all their real or imagined failings, marketing boards are publicly accountable and do attempt to be representative of consumers, producers and distributors."

Although there are more than one hundred government sanctioned agricultural marketing boards and commissions in Canada, only a few exercise strict control over the supply and price of their product. These are the Canadian Dairy Commission, Canadian Egg Marketing Agency and the Canadian Turkey Marketing Agency under federal legislation; nine provincial milk control boards or commissions control the supply and price of fluid milk in their provinces.

Although the 1977-78 Canadian Dairy Commission program will cost the taxpayers about $477 million, the Canadian Dairy Commission has no control over

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the price of fluid milk to consumers. That control lies with provincial boards or commissions that with the exception of Manitoba, are stubbornly resisting the badly needed integration of federal and provincial dairy programs.

The integration of federal and provincial marketing boards has been achieved in eggs and turkeys, while the establishment of a national marketing agency for chicken broilers is in the works.

Canadian taxpayers and consumers would benefit by changes in the operations of these agencies. Some changes are entirely within the control of Canadian governments, but some must be worked out through agreements with governments of other countries.

Among the latter, international agreements on the marketing of grains and dairy products rank high in the order of priorities. International commodity agreementsthat would incorporate, for example, skim milk powder or wheat in a world food bank would permit long range nutritional planning in less developed countries and provide greater certainty to the Canadian producers in production and market planning. The same might be said in principle, although perhaps less significant in practice, for international commodity agreements on eggs and poultry.

Domestically, the failure to integrate federal and provincial dairy policy through integration of fluid and industrial milk production, marketing, and pricing has led to inequity. Only Manitoba has achieved full integration (since May, 1974) so all producers receive the same price for the same quality of milk.

In the absence of integration some producers receive much more for their milk than others; at the same time it is not possible for the federal government to make decisions whether, for example, the effect of subsidies should fall on the consumer price of fluid milk or butter and milk powder.

Pricing of agricultural products that are strictly controlled by marketing boards must be equitable.

There never will be an end to arguments about what constitutes a "fair" price. However, a few principles should be established and firmly adhered to. Marketing institutions such as the Canadian Dairy Commission, provincial milk control boards, Canadian Egg Marketing Agency and the Turkey Marketing Agency have eliminated the uninsurable risks that are usually cited by economists and businessmen as the justification for profits. There is therefore no justification for permitting the inclusion of "management fees, full and adequate returns on

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returns on investment" in the cost structure of these products.

The acid test of pricing such products lies in observing whether there are quota values, in other words, whether production facilities are bought and sold at more than their depreciated replacement value. As long as people are willing to pay for the privilege of producing milk, or eggs, or turkeys (or tobacco in Ontario) common sense tells us that the prices for these products are higher than the true costs of production.

In such cases, the public, that has provided the producers with protection and that has removed the uninsurable risks, is being charged for its own goodwill.

Public supervision of marketing boards that have the economic power and/or the legal authority to manage supplies and set prices must therefore guard against abuse by preventing such boards from:

(a) restricting supply excessively and/or setting prices at levels substantially in excess of those needed in order to ensure a reasonable income to efficient operators of reasonable scale.

(b) allowing the income protection that is extended by the public to the producers through the marketing plan to become capitalized into marketing rights or quotas negotiable among individual producers. Such capital values are barriers to entry and increase production costs of expanding or new producers.

(c) allowing production to become concentrated into the hands of a few, very large producers. This would subvert a central purpose of marketing boards: to provide reasonable income to producers who individually are too small to protect themselves in the market place. Allowing expansion beyond the scale at which economies associated with scale can be substantially realized also would fail to maximize the potential to reduce average cost in the industry, since average cost of smaller scale producers could be reduced more substantially by expansion in scale or fuller utilization of scale.

Most important, public accountability must follow farm products past the farm gate to ensure that the social benefits of government regulated farm marketing reach the dinner table and don't disappear into the corporate maze.

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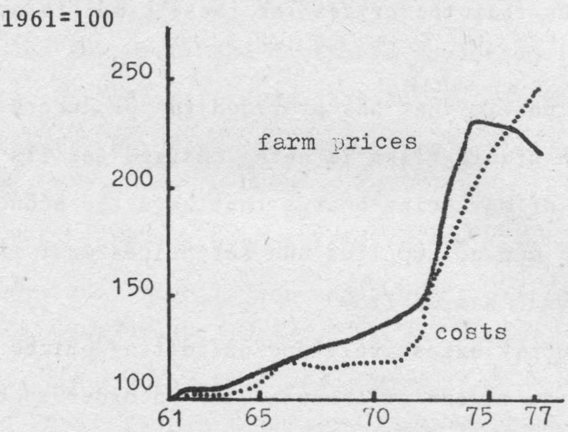
Stabilization

The federal government's direct attempts to shield farmers from the cost-price squeeze of the free market have been ineffective and inequitable.

The cost/price roller coaster



Farm Input and Output Price Index
Source: Statistics Canada 1966 and 1977 estimates.
Department of Agriculture Outlook

The Agricultural Stabilization Act and the Western Grains Stabilization Act are "market-oriented" stabilization programs, designed to make deficiency payments to farmers shorted by the market without interfering with "basic market forces."

The Agricultural Stabilization Act covers most major agricultural products produced in Canada except wheat, oats, barley, rye, flaxseed, and rapeseed produced in Western Canada which are covered by the Western Grains Stabilization Act. The Agricultural Stabilization Act provides for deficiency payments to producers when the market price of a commodity drops to below 90 percent of the average market price over the past five years; the Act also provides for adjusting the support level for changes in the cash costs of production.

There are three major inequities in the Agricultural Stabilization Act:

(a) The protection afforded by the Act is much greater for some products than for others. Commodities where cash costs of production are a high proportion of total production cost (eg. beef feedlot operators and hog enterprises) receive relatively more protection than commodities where fixed costs represent the largest proportion of total production costs (eg. cow-calf).

(b) Because the Act is tied to the average market price over the past five years, stabilization payments may (or must) be made when a downturn occurs after five years of high market prices, even though the current market price may well be adequate to cover all costs of production. (This could occur with hogs or soybeans in 1978, for example). Conversely a number of years of depressed prices will lower the five year average to such an extent that the support price is totally inadequate (eg. beef) to provide farmers with a decent income.

(c) There is no protection in the Act for consumers. If the public is required to protect farmers against unduly falling prices and incomes, the public has a right to expect protection against unduly rising prices.

In summary, the Agricultural Stabilization Act provides insufficient protection to farmers and no protection whatever to the taxpaying consuming public. It is not a sound basis for the building of a national food policy.

The determination not to interfere with market forces also builds inequity into the Western Grains Stabilization Act. Payments are based on net cash flow to all producers of all six commodities covered by the law; no attempt is made to deal with the instability of the grain market.

When market forces dictate low prices the Prairies are pushed into a depression; when market forces dictate high prices, they create havoc in the dairy, hog, poultry, and beef industries whose costs are to a large extent determined by feed prices.

When price increases for prairie grains gave rise to spectacular gains in farm incomes of grain producers, Canadian citizens partly paid for them in higher prices for milk and dairy products, eggs and poultry while beef producers saw their income sharply reduced. This in turn necessitated financial aid by the public to the beef producers through provincial and federal deficiency payments running into the hundreds of millions of dollars.

As grain prices fall, the possibility of a payment to grain producers from the taxpaying public becomes a real possibility. Moreover, there is no

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guarantee that this cycle will not be repeated in its entirety in five years.

Proposals to stabilize farm incomes must provide equity within farming and equity and stability for taxpayers/consumers.

International efforts to stabilize the effects of market forces on the world food system have been aimed at the negotiation of commodity agreements, maximum and minimum prices and world food reserves. Canada has supported these efforts towards a New Economic Order but no extension of these policies to domestic food and agriculture has been proposed.

The establishment of minimum and maximum prices for major domestic commodities would involve government deeply in the marketing of agricultural products.

The Manitoba government has been successful in offering contracts to beef producers along these lines. For producers of other crops, a price guarantee could be made an additional option of crop insurance, so that farmers could insure themselves with respect to yield (as at present) and/or with respect to price on any acreage they chose.

Minimum prices in all such programs should cover all production costs including a decent wage for the labour of the farm operator and his family. Because this approach would remove the uninsurable risk, the manner in which returns on investment and return to land is treated must be very carefully considered.

Price ranges in these voluntary plans could be negotiated between farmers and government. Nutritional priorities of the national food policy could then determine how much of the price would be passed on to consumers and how much would be paid from government revenues.

Whatever options are used to rationalize Canada's complicated mix of marketing structures, systems, regulations and subsidies, equity to both consumers and farmers must be the prime consideration. The provision of ample supplies of high quality food and the return of a greater portion of the food dollar to primary producers cannot be achieved without a comprehensive approach to the interests of both groups.

Current government policies that promote food and agriculture as separate special interest issues can't equip the Canadian food system for the changes that will come about as non-renewable resources become scarcer and expensive. The shortage of non-renewable resources will alter traditional farming practices and the demand for traditional production inputs.

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A comprehensive national food policy must recognize that production is the key to food availability and in turn, that production depends on agricultural inputs.

A simple objective for planning in the inputs sector would be to provide adequate supplies of appropriate inputs to producers at low and stable prices. Such an input objective would assist in achieving stable and reasonable consumer food prices though it couldn't by itself ensure such a result.

Figures prepared by Statistics Canada indicate that real estate costs (land and buildings) account for about 29 percent of total farm inputs. Other capital items represent approximately 51 percent of total costs and labour accounts for the remaining 20 percent.

The Farm Input Price Index shows that average farming costs rose by 16 percent in the two years prior to the end of 1976. Between 1971 and 1976, average input costs rose by 68 percent and in the past decade, 1966--1976, costs rose by 91 percent.

Land

Farm real estate costs across Canada have jumped substantially in the past few years. At the end of 1976, farmland and building costs were 21 percent above their level two years earlier, 67 percent above their level five years earlier and 87 percent above the level ten years ago.

Although the Canadian average figures show a rapid cost increase for farmers, some regional figures show an even more dramatic increase. For example, in Saskatchewan land prices have increased by about 230 percent in the past five years. The table below provides a more detailed picture of what has happened to farmer's land costs in Saskatchewan in the 35 year period from 1941--1976.

DEBT SERVICE COSTS FOR SASKATCHEWAN FARMLAND, 1941--1976

Year	Average Land Price/Acre	Average Interest Rate(1)	Annual Debt Service Cost/Acre(2)	Per Cent Increase
1941	$ 14	3%	$ 0.94	--
1946	19	3.5%	1.34	43%
1951	28	4%	2.06	54%
1956	32	5%	2.57	25%
1961	37	4.8%	2.92	14%
1966	76	7.25%	7.31	250%
1971	69	7.25%	6.64	- 9%
1976	158	11.5%	20.51	309%

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(1) Average Interest Rate is equal to the Bank of Canada prime rate plus two percent, which is an approximation for farmer's borrowing costs for land purchases. The 1941 rate is an estimated figure.

(2) Annual Debt Service Cost. Calculations are based on a 20 year amortization period.

Current land prices in Saskatchewan are almost 12 times greater than the prices of 35 years ago. When the increase in interest rates over that period is also considered, average land debt service costs per acre are about 22 times what they were in 1941. The Saskatchewan experience reflects generally what has happened throughout Canada to the land cost component of farming.

In other provinces, competing uses have driven land prices even higher. In southern Ontario, agriculture competes with housing, industry, roads, hydro corridors, gravel pits, garbage dumps, parks and harvestable forests. Urban sprawl had driven the average price of rural land in the Golden Horseshoe around western Lake Ontario to $3,830 per acre by 1975.

A primary impact of rapid land price increases has been the difficulties experienced by new and prospective farmers. The investment required to establish a farm is now almost prohibitive unless an individual receives substantial family assistance.

Related to this increased difficulty for new farmers is the growing concentration in the agricultural production sector of the economy. As farm real estate costs increase large established farmers, large corporations and foreign investors become the major land purchasers, since only they can afford the higher prices.

Other effects of higher land prices include a decrease in farm net incomes due to higher costs for land debt servicing. In the long-run, higher land prices also mean higher food costs for consumers since farmers must cover these costs or else be driven out of business.

The major factor behind steadily escalating land prices lies in the fact that the quantity of land is fixed and as a result, any improved returns are capitalized into higher land values. Whenever returns in farming improve land prices are bid up as individuals seek to acquire land, until eventually producers are no better off because higher land costs have eroded the initial higher incomes.

Any program which serves to improve returns in agriculture will indirectly contribute to higher land values. For example, a credit program designed to reduce interest rates to new farmers on land purchases will assist farmers using the program in this generation but as the benefits are capitalized into higher land values there will be increased difficulties for new farmers in each successive generation. For this reason, subsidizing credit for land purchases does not offer a long-term solution to the problems of high land prices.

Alternative solutions can be suggested based on experiences in other industries. The timber industry uses a lease tenure system which doesn't allow land to be traded as a commodity and eliminates the problems of returns being capitalized into higher land values.

In view of these benefits, a strong case can be made for working toward a system of public ownership with tenure secured by leasing arrangements that would provide long-term security of tenure and transfer rights from one generation to the next within the family. As farmers retire, land could be purchased by the Crown at fair market value. This land could then be made available to either existing or beginning farmers on a lease basis. Such an arrangement would provide farmers with all the rights associated with private ownership, except the right to treat land as a commodity to be bought and sold in the market place.

The costs associated with such a program would dictate that its implementation be gradual. Furthermore, until farmers can be assured of equitable incomes they will resist programs that would end the use of capital appreciation on their farms as a source of retirement income.

Another area to be considered in a land policy is the effect of foreign ownership of agricultural land. Foreign investors bid up land prices, remove agricultural income from Canada and reduce the amount of farmland available to resident farm families. A number of provinces including Prince Edward Island, Saskatchewan and Manitoba have taken action to restrict the amount of land that may be owned by non-residents. Such action is consistent with an overall policy of maintaining agricultural production in the hands of family farms.

Credit

Interest charges on farm debt account for approximately ten percent of total farm operating expenses. The total amount of credit outstanding at the end of 1976 was estimated to be about $8.85 billion. The distribution of this farm debt by length of term is 32 percent long-term, intermediate-term 33 percent

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and short-term 35 percent.

Over the past 35 years private sector interest rates have climbed fairly consistently from about three percent to approximately 11.5 percent in 1976. However, the long-term agricultural credit field is not aggressively serviced by private banking institutions and the federal government has financed about 80 percent of long-term land credit.

There is a serious shortage in the supply of long-term credit, but the banks' position is that they will only service this field more actively if a program of farm mortgage insurance is developed and if governments withdraw subsidized borrowing rates for farmland and remove restrictions against farm foreclosures by banks. An agricultural inputs policy should require private banking institutions to meet their responsibility of servicing the long-term farm credit market.

Since traditional government activities in the land credit field don't have significant long-term benefits, government lending should be shifted to medium and short-term markets now dominated by private lenders.

Energy

An agricultural inputs policy must balance the need of the agricultural industry to adapt to higher energy costs and eventual shortages of fossil fuels with the need to have adequate supplies of current energy forms so productivity can be maintained. Energy conservation and use of alternative energy sources should be researched and applied in the farm setting.

For instance, tax measures to encourage sharing of agricultural machinery would reduce machinery costs for individual farmers and provide more efficient use of energy at the same time.

Demand has been particularly strong for large tractors and combines in recent years. Sales of tractors over 80 h.p. were up by about ten percent in 1976 over 1975 and combine sales increased 13 percent over the same time period. Sales of large tractors, in particular, demonstrate the move to concentration in agricultural production. Tax measures to discourage the purchase of very large farm machinery might also be a useful method for counteracting the trends of declining farm numbers and increasing farm size.

Use of the three primary nutrients, nitrogen, phosphates, and potash in Canadian farming has been growing at an average rate of almost seven percent a year since 1963--1964 and expenditures for fertilizers by Canadian farmers now

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account for nine percent of total farm operating costs.

Given the need to conserve non-renewable resources, manufactured fertilizers have a severe drawback since their manufacturing processes require very large amounts of energy.

An agricultural inputs policy which recognizes the need to conserve energy and other non-renewable resources should attempt to reduce manufactured fertilizer requirement through better management practices. This objective could be accomplished by encouraging crop rotations which replenish the soil with natural nutrients and by making better use of natural waste fertilizers. If self-sustaining methods for fertilizing can be researched and applied, a reduction in the use of manufactured fertilizers would not be inconsistent with maximizing productivity. Use of natural fertilizers would also result in our land resource being better managed from a conservation point of view.

Energy savings could be realized through increased use of agricultural chemicals to eliminate or substantially reduce the need for summerfallow and large scale tillage operations. However, the basic issues in developing a policy on agricultural chemicals are not just the price and availability of the chemicals, but also whether the chemicals are safe and desirable in the long run. Many agrologists suggest that the best long-run agricultural practices are those which use and conserve renewable resources and are consistent with natural processes in the environment. Changes in crop rotations and better farming practices could reduce the need for chemicals.

Reductions in the use of chemicals currently must be traded-off against the need to maintain high food production levels to fulfil Canada's obligations to help feed a hungry world. The area of chemical use in agriculture is one that requires detailed research before a defensible overall policy can be determined. Apparent conflicts such as safety vs/productivity or energy conservation vs/environmental concerns can only be resolved through further study.

Non-renewable resources costs are likely to increase more quickly than costs for labour, a renewable resource that is increasing in supply. These trends could shift the mix of inputs required for efficient agricultural production, with labour inputs being substituted for capital as the relative prices of labour and capital change.

More labour-intensive cultivation and reduced use of non-renewable resources could be beneficial to Canadian agriculture in the long-run, since they would operate

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against current trends of decreasing farm population and declining farm numbers. However, these adjustments must be made realistically, bearing in mind the state of current technology, economic implications of any changes and the need to produce large quantities of safe, nutritious food at reasonable prices.

Nutrition

Food safety and nutrition must play a central role in our food and agriculture policies.

Canadians are not nearly as well nourished as we like to think we are. The Nutrition Canada survey found that our national eating habits lead to malnourishment or mineral and vitamin deficiencies in 1.5 to 5 million Canadians. These figures covered only the ostensibly healthy among us; the sick were not surveyed.

A background paper for the Food Prices Review Board has identified 13 major nutrition-related diseases as responsible for 40.58 percent of patient-days in Canadian hospitals at a 1975 annual cost of $1.8 billion. The Food Prices Review Board study included costs of cancer treatment in four of the 13 major disease groupings.

A more conservative estimate--excluding cancer--of the economic costs of nutrition-related diseases has put the direct hospital costs of our poor eating habits at $916 million in 1974. However, the former head of Nutrition Canada, Zak Sabry, went on to calculate that the total cost of poor nutrition is an annual $7.8 billion and that about $2.5 billion of that could be saved every year through improved nutrition.

Sabry says of his study: "It should be recognized that this calculation is based on a set of assumptions, some of which may be limiting. For example, these estimates do not include the cases of the mentally retarded and the physically handicapped. They do not include other diseases with nutritional implications such as inborn errors of metabolism and certain forms of cancer. They do not include the cost of drugs, or that of foods of low nutritional value which contribute to the state of malnutrition. Furthermore, they are based on economic evaluation rather than on social cost."

Reliance on nutritional knowledge in individual households and profit-oriented food laboratories has been a costly mistake for Canada.

Total annual government spending at all levels on nutrition improvement and education is about one percent of the amounts spent by food processors and retailers to advertise their products, many of them of dubious or negative nutritional benefit.

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COST OF MALNUTRITION IN CANADA

AND POTENTIAL SAVINGS FROM IMPROVED NUTRITION

Cost Item	Level of Cost $	Potential Savings from Improved Nutrition % of cost [l]	$
HOSPITALIZATION			
Anaemias and other nutritional deficiencies [a]	13,800,000	100	13,800,000
Cirrhosis of the liver [a]	12,327,000	33	4,109,000
Obesity [a]	3,833,000	80	3,066,000
Diabetes [b]	53,151,000	50	26,576,000
Heart and vascular diseases [b]	258,901,000	20	51,780,000
Digestive system diseases [c]	249,982,000	25	62,495,000
Respiratory system diseases [b]	165,778,000	20	33,156,000
Uro-genital diseases [c]	158,371,000	20	31,674,000
	916,143,000		226,656,000
MEDICAL CARE			
Anaemias and other nutritional deficiencies [d]	2,163,000	100	2,163,000
Cirrhosis of the liver [d]	1,931,000	33	644,000
Obesity [a]	8,245,000	80	6,596,000
Diabetes [e]	9,408,000	50	4,704,000
Heart and vascular diseases [e]	34,868,000	20	6,974,000
Digestive system diseases [d]	41,529,000	25	10,382,000
Respiratory system diseases [d]	27,540,000	20	5,508,000
Uro-genital diseases [d]	26,310,000	20	5,262,000
	151,994,000		42,233,000
DENTAL CARE [f]	338,000,000	50	169,000,000
LOSS OF PRODUCTIVITY (PREMATURE DEATH)			
Anaemias and other nutritional deficiencies [g]	–		–
Cirrhosis of the liver [h]	162,214,000	33	54,071,000
Obesity [g]	–		–
Diabetes [i]	19,138,000	50	9,569,000
Heart and vascular diseases [h]	1,230,153,000	20	246,031,000
Digestive system diseases [g]	–		–
Respiratory system diseases [h]	670,700,000	20	134,140,000
Uro-genital diseases [g]	–		–
Infant deaths and still births [j]	2,671,777,000	50	1,335,888,000
	4,753,982,000		1,779,699,000
LOSS OF PRODUCTIVITY (ABSENTEEISM) [k]			
School	213,600,000	15	32,040,000
Work	1,422,409,000	15	213,361,000
	1,636,009,000		245,401,000
TOTAL COST FOR CANADA	7,796,128,000		2,462,989,000

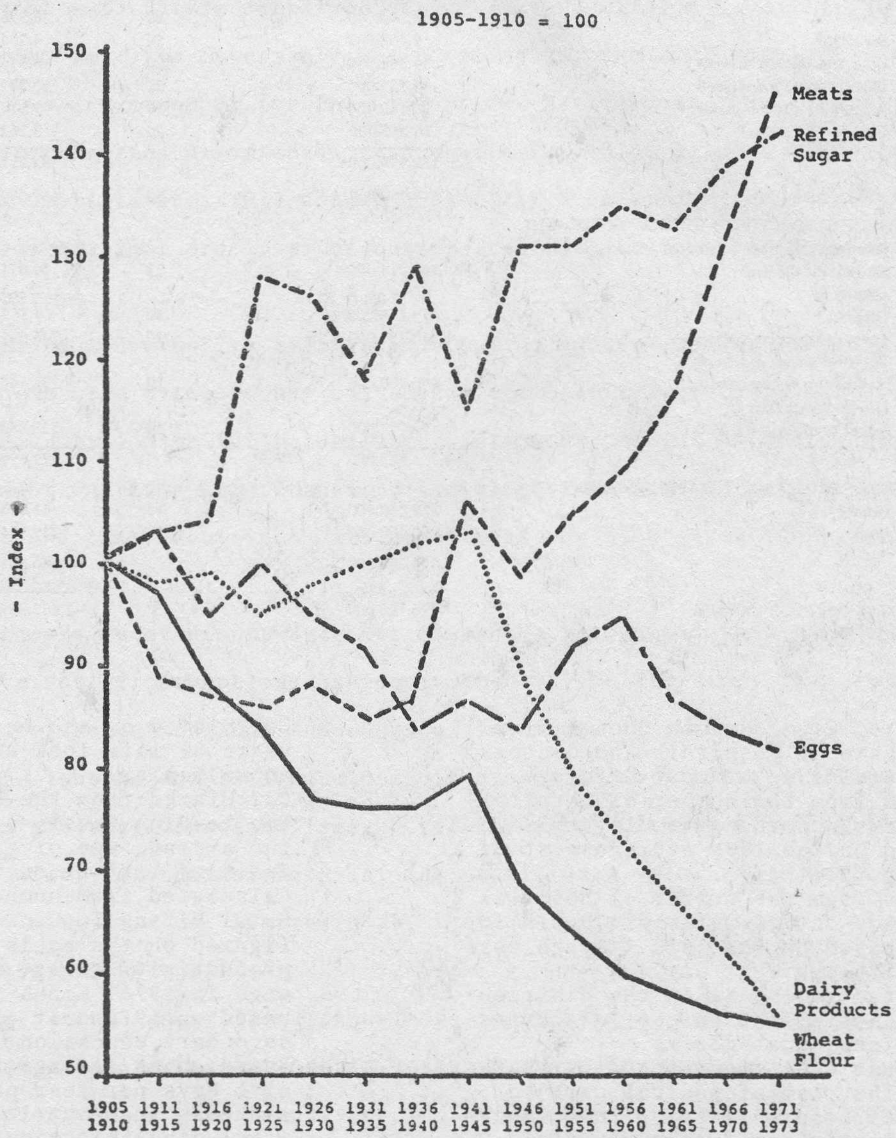
a) Extrapolated from data on Quebec from 1971 for care at hospitals and doctors' offices, exclusive of cost of drugs.
b) Calculated from the number of hospital-patient days according to diagnosis in 1969 based on the 1970 average cost of hospital-patient days.
c) Calculated from the number of hospital patient days according to diagnosis for 1969 and based on the 1970 average cost of a hospital-patient day.
d) Extrapolated from data on the distribution of hospitalization cost of corresponding disease categories.
e) Based on national figures and using the ratio of the cost of medical care to the cost of hospitalization in Quebec.
f) Based on statistics from a study of dental care in Canada sponsored by Health and Welfare Canada.
g) No data available on loss of life due to these causes, thus are not considered to be specific causes of deaths (by themselves) in all age groups combined.
h) Calculated on the basis of the potential years of life lost and the average annual salary.
i) Calculated from the number of deaths in the Leading Causes of Death, 1971 and the average age of group to determine years of lost productivity to age 65.
j) Calculated from numbers of pre- and post-natal births in Canada in 1971. Cost is figured on the basis of loss of years of productivity to age 65, times the average wage in 1974, minus the cost of education based on 1970 cost of elementary and secondary education.
k) Based on an average rate of absenteeism of 6 days per year per person due to sickness from nutrition-related diseases (including infections, anaemias, diabetes, food allergies, digestive diseases, etc.) and inability to learn or perform effectively.
l) Based on estimates of potential savings resulting from improved nutrition

Source:- Sabry, Z.I., The Cost of Malnutrition in Canada. Canadian Journal of Public Health, July/August, 1975.

Government must intervene to shift consumption patterns from the sugar and fat-rich, highly processed diet that has become the North American norm. There is strong epidemiological evidence linking rising rates of non-infectious diseases--heart disease, diabetes, gallstones, cancer and obesity--with changing consumption patters since the turn of the century and the proliferation of chemicals and food additives.

INDEXED CONSUMPTION PER CAPITA OF SELECTED

FOOD COMMODITIES, CANADA 1911-73



Figures derived from Urquhart and Buckley (editors) "Historical Statistics of Canada", 1965, and Canada Department of Agriculture, Economics Branch Publication No. 75/6 "Handbook of Food Expenditures Prices and Consumption, 1975.

Source: R.G. Wirick, "A Preliminary Paper on Some Food Policy Aspects of Nutrition and Health" Food Prices Review Board, 1976.

The increase in sugar consumption indicated on this chart, has alarmed nutritionists. Despite a shift away from the use of sugar from the sugar bowl, consumption has risen due to rising use in processing foods and beverages.

The link between a sugar-rich diet, dental caries, diabetes, obesity and increased susceptibility to heart disease has brought advertising for sugary food products aimed at children under strong criticism.

The CBC doesn't accept ads on or adjacent to children's TV programs. However, this does not apply to private networks in Canada. The ad content of children's programs beamed into most Canadian homes from the U.S. is predominantly for food products, varying from 50 to 80 percent from network to network. Testimony before the U.S. Federal Trade Commission showed that the products advertised were, in order: breakfast cereals, cookies, candy, gum, popcorn, beverages and beverage mixes, canned desserts, peanut butter, frozen waffles and pop-tarts.

These foods are not only sugar-rich but highly processed. Industrial processing can often result in the finished product having a different nutritional composition than the original product. Certain elements can be removed and the product becomes poorer in nutrients. During processing food will go through processes which break down and reduce nutrients. This occurs when exposed to heat, light, washing acid or lye treatment, aeration or contact with metals.

Associated with the shift toward increased food processing is the rising use of food additives. It is estimated that our food supply contains over 1,800 different additives. While their use is strictly regulated under the Food and Drug Act and regulations, there is growing concern over the cumulative effect of annual consumption of about five pounds of food additives and chemicals which may interact within the human body in unknown ways.

Serious problems can also occur as a result of the increasing amounts of residues found in various food products. Pesticides and livestock antibiotics are two particular residue sources which are of concern to both farmers and consumers.

The nutritional shortcomings of the industrialized food system strike particularly hard at the elderly, natives, pregnant women and the 7.5 million Canadians at or below the poverty level who spend one-third to one-half of their total income on food.

Government studies have identified these groups as those most "nutritionally at risk" in the Canadian population, but corrective action has never been implemented.

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Comprehensive planning for nutrition must have at its core education to counteract manufacturers' promotion and shift consumption patterns.

Part of an education campaign would be the development of nutritional labelling for packaged foods. The U.S. Senate Select Committee on Nutrition and Human Needs has suggested that consumers would find it easier to balance required nutrients if labelling gave:

(1) percent and type of fats

(2) percent sugar

(3) milligrams of cholesterol

(4) milligrams of salt

(5) caloric content

(6) a complete listing of food additives for all foods

Besides labelling, Canada's Committee on Diet and Cardiovascular Disease has recommended the use of a government logo to mark foods that are part of a healthy and balanced diet.

However, education programs or improved labelling cannot by themselves bring about the desired changes in the national diet. Consumption patterns could be effectively shifted if nutritious foods were promoted by consumer subsidies and production incentives to producers. Consumers who maintain a diet that increases the likelihood they will require publicly-funded health care would be penalized through appropriate excise taxes on undesirable foods.

Norway has led the way with the development of a food system employing these techniques. The government determined the quantities of basic commodities (wheat, milk, fish, etc.) that would provide the optimum national diet and adjusted agricultural and regional development policies to assure their production. Economic incentives and public education promoted the consumption of lean meats instead of fattier grain-fed meats and the direct use of grains and vegetables instead of livestock products and sugar.

Nutrition improvement for groups whose needs are greatest should also be part of a food and agriculture policy. School food programs, nutrition supplements for pregnant women and food distribution and diet counselling for low income families have all been successful in Canada with limited funding and should be expanded.

Research in nutrition, as in all areas of the food system, is a key to meeting future challenges. Funding should be increased in this area to guide government planing.

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Food Aid

Throughout history hunger has been man's steady companion. Although the world's ability to produce food has never been so great, there are probably more people suffering from starvation and serious malnutrition now than ever before. While sharp increases in world population, mainly due to improvements in health services, have contributed to the problem, there are sufficient resources in the world to feed all its people adequately.

Failure of the world society to accomplish this has been due not so much to real physical shortages as to economic and social maldistribution and waste rooted in inappropriate economic and social structures and practices within and between nations. The main failure has been man's inability or unwillingness to devise proper marketing mechanisms.

In examining Canada's food aid policy, it is equally important to look at Canadian food imports and their effect on the Third World. Chilean vegetables are now appearing on the shelves of Canadian grocery stores while Canadian aid agencies with the assistance of CIDA are pouring money into feeding programs for malnourished children in the shanty-towns of Chile's cities, where there is a shortage of fresh vegetables. Canada imports tea from Sri Lanka, where tea-pickers suffer from malnutrition. The land they work is used by foreign companies to grown luxury crops for export, rather than food for domestic consumption.

Food trade planning should include measures to balance less-developed countries' need for Canadian markets for their food exports with the more urgent need to reduce the trade deficit of developed importers of Third World protein.

Food aid should be accompanied by technical programs to develop self-sufficiency in recipient nations. Less developed countries have proposed a New Economic Order to ensure Third World self-sufficiency through international price arrangements. Price guarantees would encourage developing countries to make the investments required to dramatically increase production.

Canada has proclaimed its commitment to international commodity arrangements but has been slow to commit itself to specific obligations under multilateral treaties.

A comprehensive food and agriculture policy that aims at blunting the effect of market forces on Canadian farmers must have the same goal for farmers in other nations who are at the mercy of market forces far more powerful than our own producers face. If equity is to be the guiding principle of a national food policy, international pricing arrangements must be considered part and parcel of domestic agriculture policies.

Transportation

A TRANSPORTATION INVESTMENT PLAN

I. Introduction

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Michael Decter

Introduction

The intention of this transportation investment plan is to provide an analysis which is consistent with the principles of the New Democratic Party and which suggests a direction for the future development of transportation in Canada. A focus on investment is crucial. The essence of these proposals is that capital may be invested in a number of activities to produce goods and services. At present these choices are made by market forces, large multinational corporations, governments and individuals. New Democrats believe that the allocation of investment should be the task of democratically elected governments acting in such a fashion that the basic needs of all people are met and so that movement towards equality of the human condition occurs in our society.

The transportation analysis is only one component of a larger national investment plan. The total plan represents the New Democratic Party's priorities for the nation. As such, it is the articulation of a challenge to the existing order of things. It is important for a Party committed to a more rational and humane society achieved through planning to propose specific alternatives. This must be the basis of our approach to the disillusioned electorate of this ill-governed land. Directions for policy, evaluation of the existing transportation system, as well as very specific proposals are interwoven to make easier the understanding of decisions involved.

An approach to defining an outline of the organization of transportation in Canada that would be consistent with the principles of the New Democratic Party must start with those principles. Stated in brief, these include a greater equality of condition, a belief in full employment, pragmatic use of the public sector and a greater democratization of the society. Redistribution towards equality and the use of the public sector are central to a transportation plan.

To begin exploring the application of these principles to the future development of transportation requires an analysis of the existing system. All modes - air, rail and road must be examined. Actual investment is a starting point although ownership, degree of subsidization, relationship between fares and costs are all crucial elements. Energy planning and manufacturing are connected to transportation and must be examined.

A cursory glance indicates that over 10% of all investment in Canada is in the transportation sector, some 5.6 billion dollars in 1975.

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These figures include automobile purchases of 1.25 billion dollars which are viewed by others as consumption expenditure. If some portion of automobile purchases properly depreciated are included, as they logically should be included, then transportation investment accounted for over one dollar in ten of our national investment. The size of transportation investment is only one factor which favours its consideration. Also important is the pervasive role of transportation in the daily lives of all Canadians.

Our existing transportation system does not serve us very well. It is not a planned system but rather a patchwork of competing modes. The pursuit of profit by the corporate sector and the absence of a sound analysis by the public sector have resulted in a costly, inefficient, unsafe and often irrational development. The point of this paper is to analyse the current situation and to suggest changes.

II. Historical Patterns; Private Profit - Public Capital

Many volumes have been written on the history of Canadian railroads, airlines and other components of the transportation system. Repeating a detailed history here would serve little or no purpose. However, trends can be established from historical review which aid in analysis of the transportation system. One trend is that the transportation system grew up like Topsy with little overall planning. Another is that the role of government has always been to maintain the profitability of private capital invested in transportation. A combination of land transfers, public works and subsidies have been the major instruments of this policy. Paradoxically governments, also encourage competition. Where transportation services have been required and private capital has been unwilling, the government via Crown Corporations has taken an interventionist role.

A few historical selections convey the relationship between politicians, railroad construction and public policy.

> "By 1880, conditions were ripe for another effort to settle the West with white farmers. Enormous blocks of land were ceded to the CPR, and other smaller lines promoted by eminent Tories, most of which were eventually absorbed into the CPR, received land grants as well. One of the largest of these was the Alberta Railway and Coal Company headed by Sir Alexander Galt with a group of British capitalists, a resource road built to tap the coal lands Galt was given by his confreres in the federal Parliament. In the final analysis, ten western "colonization" railways received land grants, generally from a different province

(or part of the North West Territory before 1905) from that through which the roads' mileage ran. Manitoba, fortunate in having been bequeathed responsible government by Louis Riel, got 1,287 miles of railroads for three-and-one half million acres; Alberta 805 miles for thirteen million acres; Saskatchewan 885 miles for over fifteen million acres.

The American traffic was critical to other roads as well. Both of the companies organized in 1871 to compete for the CPR contract stressed the need for American connections in their charters. And when in 1888 a quarrel broke out between the Allan Line of steamships and the Grand Trunk, the Allan Line diverted its ships to Halifax away from Portland and caused a boom in Halifax.

But the intrusion of the CP into this territory did not lead to rate competition. Freight rates remained fixed while competition took the form of a proliferation of feeder and and branch lines and systematic efforts to wreck each others' credit ratings. Early in 1883, the CP secured Duncan McIntyre's Canada Central and made a move towards leasing the Credit Valley. In response, the GTR secured the North Shore Railroad for $5 million from a syndicate of members of the Quebec Legislative Assembly who had just bought it from the Quebec government for four million. An arrangement between the two lines was almost achieved on the basis of CPR's being left in control of the Northwest while the GTR was to keep a monopoly of the western Ontario-Montreal traffic. But the peace was broken. Henry Tyler denounced the CPR's intent to hook up with Cornelius Vanderbilt and intrude into the Montreal-western Ontario trade. The CPR secured the Credit Valley line with exactly this in mind.

Because of this structure, the West was reinforced in its position as a staple-producing hinterland dominated by eastern commerce and finance. With the boom in the mining districts in British Columbia and Yukon near the end of the nineteenth century, for example, pressure mounted for the building of the Crow's Nest Pass Railway. The Dominion government gave the CPR a guarantee of up to $11,000 a mile to build the line, which not only served as an access route to the Kootenay Mining District and permitted eastern Canadian mercantile interests to replace the Americans in controlling the area's trade.

The CPR charter was supposed to put an end to these problems. Instead, the new railway was immediately faced with charges of discrimination of its own. In 1880, the Winnipeg business community began to fret about the possibility that traffic would be diverted along the syndicate's Pembina branch and the St. Paul, Minneapolis and Manitoba to Chicago, completely bypassing Winnipeg.

The CPR, once operational, discriminated in favour of American grain as effectively as had the GRT. In 1890, it was carrying wheat from Winnipeg to Halifax for 63.5¢ per 100 lb., while it carried it from Minneapolis to Portland and Boston for 42.5¢ and to New York for 37.5¢. General merchandise flowing back showed a similar pattern. The first class rate from St. John to Winnipeg was $2.64 per 100 lb., and from Montreal to Winnipeg $2.08; while from Portland and Boston to Minneapolis the company charged only $1.05 per 100 lb. The CPR thus exploited to the full its monopoly with Canada while its rates were kept down to a lower level in the U.S. by the cartel agreements or the intermittent rate wars. The effect on wheat shipment was especially harmful, as it raised the costs of shipping from Winnipeg to Liverpool one-third above the rate from Minneapolis to Liverpool, a factor that must have contributed to the retardation of development of the Canadian West."

Tom Naylor, The History of Canadian Business, 1867 - 1914 Vol. II. (1)

The construction of railways achieved by massive public subsidies to private capital set a pattern which has remained basically unchanged in this century.

Governments have also built the infra-structure necessary for the development of road and air modes.

From the number of automobiles registered year by year and expenditures by governments to develop a road network, the accommodation of private capital made possible by public investments can be seen. Private profit in the automobile manufacturing industry depended on massive public expenditures on roads.

The profitability of foreign capital in the auto manufacturing sector is evident from net income of $231 million dollars for Ford of Canada and General Motors of Canada in 1975. Total net income 1971-1975 for the two companies amounted to over $1.0 billion.

Four growth phases of private automobile ownership can be identified. In brief these are: (detail in Appendix A III)

1912 - 1930: Rapid expansion to 1 million cars

1930 - 1945: Stagnation due first to the depression and then W.W. II.

1945 - 1960: Very rapid growth from 1 to 4 million cars.

1960 - Present: Steady growth from 4 to 8.5 million cars.

Data on road and street construction in Canada reveal similar parallel phases. (detail in Appendix A II)

III. Transportation Investment

At the very heart of the development of transportation in Canada are the investment choices made by governments and private corporations. The NDP believes these choices to be central to the provision of adequate, comfortable, economical transportation which meets the needs of Canadians. A private economy views competition in the marketplace as the method by which rational investment choices are arrived at. The history of Canadian transportation contradicts this view as does the philosophy of the NDP.

> "Our opinion is that in most areas of transportation competition has no place. It is an essential public service which everyone has to use directly or indirectly. There are areas where competition is wasteful, increases the costs to the public and does not add much if anything in the way of better service to the public. It is our view that if it is logical to having competing airlines and rail lines, it would be equally logical to have competing highways, sewer and water systems."

Finding the market an unworkable mechanism for allocating investment is not a new departure. Since before Canada's founding the public authority has invested heavily in transportation. A new departure is the suggestion that overall planning shape the investment priorities in transportation not ad hoc responses to particular problems. This section examines the actual investments in transportation which have taken place during the post war years.

The consequences of determining transportation investment, or investment in any other utility solely on the basis of profitability is evident from the following table, Investment in bowling alleys, florists shops and jewellery and silverware manufacturers would take precedence over investments in railways and bus transport.

INDUSTRY PROFITABILITY

Industry	% Profit on Net Worth 1973	Rank out of 171
Bowling Alleys	26.1%	7
Florist Shops	18.5%	
Jewellery & Silverware	26.3%	6
Railways	1.8%	167
Water Transport	2.6%	166
Bus Transport	-24.5%	171

Source: Canadian Imperial Bank of Commerce, 1977

As noted in the introduction the portion of total national investment which has flowed into transportation is over 10%. For the trend over time the following table provides a useful pattern. Transportation has remained an important sector for investment in road and automotive

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transportation constituting the largest share. Other data reveals a rapid growth in the investment related to air travel while rail has grown much more slowly. Urban transit systems show an uneven pattern with some major increases in the 1970's. It is essential to note that this investment data does not separate investments made in freight facilities from those in passenger facilities. This separation is not possible with available data.

TRANSPORTATION INVESTMENT

CANADA

1960-75

Sector	1960	1965	1970	1975
		(- millions of dollars -)		
Air Transport	203	258	290	443
Railway Transport	609	657	727	1,532
Water Transport	117	113	142	197
Motor Transport	106	116	202	271
Urban Transit System	49	191	81	335
Highways and Roads [1]	509	792	1050	1595
Automobile Purchases [1]	322	567	539	1254
TOTAL	1,915	2,694	3,031	5,627
Total Canadian Investment	11,247	15,994	23,465	47,745
Transportation %	17.0%	16.9%	12.5%	11.8%

1. 25% of automobile purchases and 50% of road and street expenditures have been included as investment necessary for transportation.

Source: Statistics Canada 61-205, 51-501.

A great deal of this investment is within the public sector. Roads, streets, urban transit systems, crown corporations such as Air Canada, the CNR and even the Saskatchewan Transportation Co. (bus line) are public sector investors or investments.

However these investments in total have never been considered as a means by which planning could result in a more efficient and egalitarian transport system. Instead profitability, accommodation of private or individual decisions and bureaucratic logic have dictated particular decisions. So despite the massive public spending in transportation, estimated at at least 60% of the total, planning in a total sense, has not been considered as a policy.

Foreign ownership is not a problem in the transportation sector. As the following chart shows only in pipelines is there a substantial amount of foreign ownership. From the standpoint of this paper, pipelines are more properly regarded as a part of the energy industry.

TRANSPORTATION SECTOR

Industry	No. of Corporations 1973	Assets Under Foreign Control (% 1973)
Air Transport	678	0.6%
Water Transport	707	15.2%
Rail Transport	55	1.9%
Truck Transport	4,937	13.0%
Bus Transport	287	7.5%
Taxicabs Transport	542	0
Pipelines	65	55.8%
Other	1,433	5.3%
TOTAL	8,704	15.2%

Source: Statistics Canada 61-207, 61-210 and CALURA Pt.1.

IV. Growth of Different Modes

Although some trends are evident from the preceding section on investment it is worth noting the very diverse situations of the different intercity passenger modes in the post-war period. Rail and bus travel have stagnated and declined while road travel has expanded steadily and air travel explosively. If we compare passenger miles by mode the pattern can be shown clearly.

INTERCITY TRAVEL

1950 - 1975 By Mode

Mode	1950	1960	1970	1975
	(- millions of passenger miles -)			
Air	550.5	2,947	10,278	18,000
Auto	28,000	60,000	70,000	85,000
Rail	3,000	2,263	2,272	1,820
Bus	3,200	2,900	2,000	2,500

Source: Intercity Passenger Movement, Interim Report, M.O.T. Statistics Canada 51-002, 52-210, 53-215.

Considering the percentage shares held by each mode in the Post-War period we can see the following shift.

SHARES OF INTERCITY PASSENGER TRAVEL

Mode	1950	1970
Air	1.6%	16.8%
Auto	80.2%	79.2%
Rail	8.6%	1.7%
Bus	9.2%	2.3%

Source: Previous Table

V. Real Costs of Transportation

To plan a better transport system for Canadians, it is important to know the real costs of each mode.

The efficiency and sanity of a transportation system must be

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judged on the basis of all its costs not merely the conventional costs of fuel, equipment and infra-structure. The costs of accidents, pollution, poor land use, travel time and energy usage should properly be included in the analysis. Whether they can be quantified and added to the comparison of different modes on a cents per mile basis is a difficult question.

In the case of accidents, the answer is a qualified yes. It is possible to value accident damages to property, medical expenses and lost wages. (See Appendix A-IV). For pollution an economic evaluation is elusive. Marco ecological studies have not yet placed a monetary cost on a given volume of pollution. Travel time divides the air mode from all others and forces special consideration on it. Values for travel time have been established but are not included here. Energy usage should be a good predictor of future costs and also potential for cost savings through intermodal shifts.

As well energy conservation is consistent with a reduced rate of growth of energy investment as recommended by the energy investment strategy. Transportation consumes about 25% of all energy in Canada and a larger share of diminishing oil supplies.

The potential energy efficiency of various modes is shown by the following table which shows how many passenger miles per gallon various vehicles can deliver, fully loaded.

POTENTIAL FUEL USE - BY MODE

Mode/Vehicle	Passenger Miles Per Gallon (100% loaded)
Air	
Boeing 747	70
Smaller Jet	50
Rail	
Diesel	642
Electric	500
Bus	
Urban	546
Intercity	561
Car	
Small	140
Large	75

Source: Transportation 2000

Bus and rail have an obvious and large superiority. Despite this, poor organization, convenience and a host of structural factors have allowed air and auto travel to grow amidst an energy 'crisis'. Some portion of air travel growth can be accepted on the travel time argument but even that argument is weakened when one examines data showing air travel shares of cities as close as Toronto, Montreal, Ottawa (See Appendix A-IV).

The operating cost per seat mile of various modes has been estimated differently by various groups. The M.O.T. Report gave these costs:

OPERATING COST PER SEAT MILE

Bus	1.7¢
Rail	2.9¢
Auto	2.8 - 3.4¢
Air	4.1 - 5.5¢

As Appendix A-IV notes, the cost of accidents may be added as an additional cost per passenger mile. Conversion from seat miles to passenger miles involves a movement from the potential cost of each mode to its actual cost. Load factors must be taken into account to convert costs per passenger mile to seat miles. At a 50% load factor the following picture emerges.

Mode	Cost Per Seat Mile	Cost Per Passenger Mile (50% loaded)	Cost of Accidents	Total Cost Per Passenger Mile
Bus	1.7¢	3.4¢	.05¢	3.9¢
Rail	2.9¢	5.8¢	.01¢	5.9¢
Auto	3.1¢	6.2¢	.55¢	6.8¢
Air	4.8¢	9.6¢	0.3¢	9.9¢

Source:

In a note the M.O.T. Report's authors point out that road and air infrastructure deficits are not included. If they were, bus and train would have an even greater cost advantage.

Subsidies by government have been calculated by Z. Haritos for the Canadian Transport Commission. Details are in Appendix A-IV. The table below provides a rough overview of the magnitude of government involvement. It is important to note that freight and passenger subsidies are not divided so that for road and rail modes the subsidy is grossly overstated.

SUBSIDY BY MODE

Year	Costs	Revenues	Subsidy
	(millions of dollars)		
1960			
Air	203	32	171
Road	1,439	1,019	420
Rail	2,543	1,577	966

SUBSIDY BY MODE (Cont'd)

Year	Costs	Revenues	Subsidy
		(millions of dollars)	
1970			
Air	290	92	198
Road	2,793	1,863	930
Rail	2,415	1,931	484
1973			
Air	354	111	243
Road	3,191	2,041	1,150
Rail	2,548	1,877	671

VI. Income Distribution and Transportation

The average Canadian family spends 12% of its annual income on travel and transportation. The bulk of this (80%) is spend on automobile purchase and operation. However, what is true for the average family is not true for all families. It varies greatly by income level.

For a family at $5,000 to 7,500 per year this likely means a few tens of dollars per month for bus or taxicab fares. Low and middle income people travel intercity most often by bus, next frequently by rail. Wealthy Canadians depend on air travel. Most income groups use automobiles heavily.

The following table shows the relationship between income and travel mode.

INCOME AND TRAVEL - 1970

Income Class $	Size of Group %	Air Trips %	Rail Trips %	Bus Trips %
		(may not add to 100.0 due to rounding)		
less than $3000	35.8	1.1	7.1	10.4
3001 - 5000	18.6	2.4	13.1	18.8
5001 - 7000	17.1	4.6	16.8	19.3
7001 - 9000	12.9	7.2	14.2	13.9
9001 - 11,000)		11.0	12.6	10.9
11,000 - 13,000)	11.9	11.6	8.5	7.7
13,000 - 15,000)		12.6	8.6	6.0
15,001 - 20,000	1.9	20.8	9.3	7.1
over 20,000	1.5	29.1	10.1	5.9

Source: Intercity Passenger Transport Study
C.T.C. 1970 p.90

In view of the use of rail and bus by low and middle income families increased equality demands an improvement in these modes. It is also essential that Canadians are able to travel to work, on vacation and throughout Canada without purchasing an automobile. This is the only way in which low income Canadians will be served by a reorganized passenger transport system.

Improved urban transit will also benefit low and middle income Canadians who depend on it for daily travel to work. At present urban transit in our major cities is often slowed to the pace of automobile traffic during rush hours as buses compete with cars on crowded roads. Even where subways exist crowding on buses is a problem. For example, in Toronto 85% of subway riders reach the subway by bus.

A variety of actions will be necessary to give priority to mass transit on city streets. Imaginative solutions will also aid the costly peaking difficulty of transit systems.

VII. Employment Implications

To analyze the relatively high costs of the air and automobile modes is not to justify an extreme position. We have build up a dependence on the passenger automobile quite unrivalled by any civilization's dependence on a single industrial product. Of Canada's manufacturing employment 7.6% is in automotive and automotive parts. We have a network of roads connecting all but the most remote communities in Canada. Many citizens depend on daily commuting by automobile to reach their place of work. Automobile passenger mileage accounts for about 80% of inter-city travel and a large portion of urban travel. Finally, the automobile has shaped the design of our cities, houses and public spaces by its ability to maximize convenience.

None of these facts detract from our need to lessen our dependence on the automobile. As a society we can no longer afford the widespread use of the automobile - it is simply too polluting, too expensive, too dangerous and a drain on scarce petrochemical resources. All of the above points argue for a gradual and planned evolution of our transportation system away from the automobile.

If a gradual evolution is to occur, it will require a planned alteration of our automobile manufacturing capacity to the manufacture of other transportation equipment. Employment at the "Big Three" auto companies in Canada exceeds 50,000 and a host of auto parts suppliers employ thousands more. (General Motors of Canada - 28,700 employees; Ford of Canada - 14,200 employees). A transition of the type proposed must not result in any

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increased unemployment. So long as urban transit, rail and intercity bus requirements for equipment are directed to Canadian located employers, there need not be a serious employment effect. Specific actions will be needed to ensure that the transportation is not accomplished at the expense of employees of any industry.

VIII. Policies and Directions

A number of directions and policies suggested here derive their sanity, egalitarian nature and planned approach from the preceding analysis. Also included are some very specific proposals which appear to be logical extensions of the policies. They are included primarily as illustrative examples of proposals consistent with the policies recommended.

All of these recommendations and proposals need to be tempered by a regional perspective. Northern and other geographically remote regions require special consideration and subsidization if their residents are to be treated fairly. In some cases particularly where air transport is the sole mode providing access to a community - subsidies should be continued and expanded.

Another dimension of these recommendations is the necessity for ownership changes to facilitate unification. Dependent on the co-operation with which private rail and bus operators approach integration, some ownership changes might be necessary. Public equity investments in firms could finance investments and shift ownership simultaneously.

Recommendation #1

That the NDP commit itself to a policy which reduces the dependence of Canadians on automobiles for travel both within cities and between cities. To accomplish this objective, it will be necessary to develop an intercity bus, intercity train and urban transportation system capable of serving as a realistic alternative to the convenience of the automobile.

The reasoning behind this recommendation is the substantial saving in fuel, dollars, land and lives possible by a reduction of dependence on the automobile.

Two comments about the automobile should clarify the intent of such a policy. First, the extent of automobile use is so great (79% of all travel) that very gradual reductions in its use will require a major upgrading of rail and bus systems. A 1% shift in passenger travel from automobiles to rail and bus would cause a 23% increase in rail travel and 17% increase in bus travel. Therefore gradualism is essential. The second comment is on the convenience and recreational use of automobiles. No other mode has the flexibility and small size to permit such use. It is therefore a virtual certainty that automobiles will continue to be a normal possession of most Canadian families.

A reorganized system would have to offer intermodal mobility and ease of transfer, realistic pricing advantages and frequency of service sufficient to attract passengers. Separate decisions in three areas would be necessary if passenger rail, intercity bus and urban transit systems are to be integrated in a sensible fashion.

The strength of passenger trains lies in their ability to move a fairly large number of people a long distance in relative comfort, with a minimum of pollution, in safety and at a reasonable cost. Buses are more flexible with respect to numbers of passengers and have access to all communities served by road. An integration of bus and rail modes would allow passenger movement from small cities into major points by bus with an easy transfer to trains for longer distance travel.

Investment will have to be substantially increased in the short run to improve service. Not only in our major cities but in small cities of 30,000 to 50,000 population, the financing for urban transit development will need to be supplemented by the federal government. Unless Canadian workers find it possible to make their daily trip to work on public transport with convenience, it is unlikely that an intercity bus-train system will ever be successful in gaining acceptance. If increased ridership on urban systems can be attained then prospects for increased use of intercity alternatives would be greatly enhanced.

Examples:

1. To integrate these systems one important step will be to locate terminal facilities for intercity rail and bus in the same building. In addition, this station should be a major point on the urban transit network. This would permit a passenger to take a bus from a small town or village to a regional center where transfer to a train or intercity bus would not require an expensive and inconvenient taxi ride.
2. A unification and standardization of tickets such that one purchase would be all that is required to move from any point in Canada served to any other point served regardless of the carriers involved.

Recommendation #2

It is recommended that all subsidization of the automobile mode, estimated at 1.15 billion per year* be redirected into the task of implementing Recommendation #1. The reasons for this proposal are evident from the previous analysis. It would be folley to continue subsidization of a mode which is less desirable.

Examples:

1. Highways costs which have been met from general revenues of governments in part should be transferred through gasoline.

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* If accidents are included $1.6 billion.

taxes and motor vehicle licensing to automobile users.

2. Automobile insurance costs should reflect the full costs of accidents caused by automobiles not merely the non-hospital, non-health care costs.

Recommendation #3

It is recommended that the subsidy to air travel be reallocated within the air mode to provide less expensive access to a larger group of Canadians. At present, the 250 million estimated subsidy benefits business travellers most heavily and also the wealthier segment of the population that utilizes air travel most often.

The air mode has significant travel time savings over other modes. Most working Canadians have one annual paid vacation of two or three weeks in duration per year. It is, therefore, proposed that the air subsidy be utilized to provide each Canadian with one relatively inexpensive trip per year within Canada. This would also encourage national unity.

Recommendation #4

It is recommended that less frequent air travel, utilizing more full planes be achieved. A variety of policies including penalties for flight cancellation could be employed to achieve this objective.

Air travel is presently provided in a competitive fashion with pricing differentials restricted to discounting practices. The major result of this situation is very frequent flights which travel at load factors of 60% or less. The cost of this excessive convenience is substantial.

Recommendation #5

In addition to financial support it will be necessary to give buses priority within cities. Peaking will have to be tackled as a major cost problem of transit system.

It is suggested that new residential neighbourhoods be designed with provision for access to bus travel. More reserved lanes for buses are needed in all our cities, even if these lanes are reserved only at rush hours. Certain streets could be set aside for exclusive transit use.

A parking policy for our cities will be necessary component of improved transit services. At present all citizens as taxpayers heavily subsidize the wasteful use of downtown land for parking. As a condition of Federal funding for urban transit, city government should be required to develop policies drastically reducing downtown parking.

Peaking will require two types of solutions. A wider range of transit vehicle sizes, from mini buses to articulated buses will better cope in a cost efficient manner with peaks. Staggered work hours will also better spread the load on transit systems.

IX. The Federal Political Debate

Two particular debates have raged in the Federal political arena on the subject of transportation. The first has centered on the principle of "user pay" and the Hon. Otto Lang, Minister of Transportation's advocacy of it. The second debate has been about the Federal government's refusal to provide financing for urban transit as it promised during the 1974 Federal election.

Lang's user pay principle has been viewed primarily as an attack on the Crows Nest Pass freight rate system which provides low statutory rates for prairie grain moving to ports. Reorganizational efforts by Transport Canada in both the 1960s and 1970s seemed obsessed with shifting costs to users even where this meant regional hardship and undermining of sectoral income. The concept of 'commercial viability' has been the basis of Federal actions which have the potential to badly damage the Maritime economy and the Western Provinces economy. However, since this paper deals with passenger transportation the issue can be left to the freight transportation study.

The recent statement by Finance Minister Donald MacDonald that urban transit will not be financially supported by the Federal government despite previous commitments is an outrage. It throws the heaviest burden for needed transportation investment on the municipal level of government which is least able to pay. This decision by the Federal government should be opposed by the NDP at every opportunity as a matter of policy. Interest groups such as Municipal Associations, Mayors and Councillors should be enlisted in a struggle to reverse the Federal position. The NDP should make clear its support for urban transit alternatives to the automobile.

X APPENDICES;

TRANSPORTATION INVESTMENT PLAN

A-II	Investment
A-III	Modal Growth
A-IV	Real Costs of Transportation

APPENDIX

TABLE 1: CIVIL AVIATION INFRASTRUCTURE COSTS AND REVENUES CANADA 1956-1973[1]

(In Millions of 1973 Constant Dollars; Rate of Cost of Capital: 6 Per cent)

Year	Annual Costs: Depreciation ($M) 1	Cost of Capital[2] ($M) 2	Total Capital Costs ($M) 3=2+1	Current Operations and Maintenance Costs ($M) 4	Total Costs ($M) 5=4+3	Annual Revenues ($M) 6	Total Revenues as a Percentage of Total Costs (Per cent) 7=6/5
1956	24	23	47	89	136	24	18
1957	27	24	51	97	148	24	16
1958	29	27	56	116	172	29	17
1959	34	29	63	125	188	30	16
1960	36	33	69	134	203	32	16
1961	44	40	84	138	222	39	18
1962	46	43	89	139	228	39	17
1963	46	44	90	139	229	40	17
1964	51	51	102	154	256	50	20
1965	51	51	102	156	258	51	20
1966	51	51	102	160	262	51	19
1967	51	51	102	177	279	63	23
1968	53	52	105	171	276	76	28
1969	53	52	105	171	276	86	31
1970	54	53	107	183	290	92	32
1971	58	56	114	193	307	96	31
1972	62	59	121	207	328	103	31
1973	67	64	131	223	354	111	31

[1] Totals may not agree due to rounding.
[2] Includes opportunity cost of land.
Source: Haritos, Z., *Transport Costs and Revenues in Canada*, Canadian Transport Commission, Ottawa, 1973, p. 7; Ministry of Transport, *An Interim Report on Inter-City Passenger Movement in Canada*, Ottawa, June 1975, p. 75; and special calculations by the author to provide a breakdown of costs for the years 1969-1973.

TABLE 2: ROAD COSTS AND REVENUES CANADA 1956-1973[1]

(In Millions of 1973 Constant Dollars; Rate of Cost of Capital: 6 Percent)

Year	Annual Costs: Depreciation ($M) 1	Cost of Capital[2] ($M) 2	Total Capital Costs ($M) 3=2+1	Current Operations and Maintenance Costs ($M) 4	Total Costs ($M) 5=4+3	Annual Revenues ($M) 6	Total Revenues as a Percentage of Total Costs (Percent) 7=6/5
1956	318	267	585	591	1177	800	68
1957	342	291	633	572	1205	890	74
1958	365	318	683	601	1284	938	73
1959	379	356	735	637	1372	980	71
1960	427	400	827	612	1439	1019	71
1961	470	446	916	625	1541	1143	74
1962	515	487	1002	657	1659	1189	72
1963	566	524	1090	706	1796	1266	71
1964	625	567	1192	739	1931	1382	72
1965	693	617	1310	787	2097	1419	68
1966	760	665	1425	802	2227	1430	64
1967	823	716	1539	853	2392	1526	64
1968	884	755	1639	875	2514	1805	72
1969	881	814	1695	913	2608	1870	72
1970	944	871	1815	978	2793	1863	67
1971	991	915	1906	1026	2932	1943	66
1972	1037	958	1995	1075	3070	2028	66
1973	1078	996	2074	1117	3191	2041	64

[1] Totals may not agree due to rounding.
[2] Includes opportunity cost of land.
Source: Haritos, Z., *Transport Costs and Revenues in Canada*, Canadian Transport Commission, Ottawa, 1973, p. 15; Ministry of Transport, *An Interim Report on Inter-City Passenger Movement in Canada*, Ottawa, June 1975, p. 76; and special calculations by the author to provide a breakdown of costs for the years 1969-1973.

APPENDIX A-11

TABLE 3: CIVIL MARINE INFRASTRUCTURE COSTS AND REVENUES CANADA 1956-1973[1]

(In Millions of 1973 Constant Dollars; Rate of Cost of Capital: 6 Percent)

Year	Depreciation	Cost of Capital[2]	Annual Costs: Total Capital Costs	Current Operations and Maintenance Costs	Total Costs	Annual Revenues	Total Revenues as a Percentage of Total Costs (Percent)
	($M)	($M)	($M)	($M)	($M)	($M)	
	1	2	3=2+1	4	5=4+3	6	7=6/5
1956	93	148	241	113	354	77	22
1957	91	149	240	114	354	73	21
1958	90	150	240	120	364	73	20
1959	113	170	283	125	408	85	21
1960	112	194	306	138	444	86	19
1961	114	199	313	144	457	92	20
1962	117	200	317	150	467	92	20
1963	121	202	323	153	476	94	20
1964	122	202	324	157	481	106	22
1965	122	201	323	166	489	113	23
1966	127	202	329	180	509	117	23
1967	132	206	338	181	519	110	21
1968	137	210	347	177	524	110	21
1969	141	214	355	178	532	108	20
1970	139	225	364	179	543	109	20
1971	141	230	371	183	554	111	20
1972	144	235	379	186	565	112	20
1973	146	240	386	190	576	110	19

[1] Totals may not agree due to rounding.
[2] Includes opportunity cost of land.
Source: Haritos, Z., *Transport Costs and Revenues in Canada*, Canadian Transport Commission, Ottawa, 1973, p. 11; Ministry of Transport, *An Interim Report on Freight Transportation in Canada*, Ottawa, June 1973, p. 19; and estimates for the year 1970, 1971 and 1973 by the author.

TABLE 4: NATIONAL RAILROAD SYSTEM COSTS AND REVENUES CANADA 1956-1973[1]

(In Millions of 1973 Constant Dollars; Rate of Cost of Capital: 6 Percent)

Year	Depreciation	Cost of Capital[2]	Annual Costs: Total Capital Costs	Current Operations and Maintenance Costs	Total Costs	Annual Revenues	Total Revenues as a Percentage of Total Costs (Percent)
	($M)	($M)	($M)	($M)	($M)	($M)	
	1	2	3=2+1	4	5=4+3	6	7=6/5
1956	275	358	633	2270	2903	2099	72
1957	281	371	660	2168	2828	1949	69
1958	304	387	691	2004	2695	1737	64
1959	315	392	707	1944	2651	1744	66
1960	322	394	716	1827	2543	1577	62
1961	325	391	716	1784	2500	1519	61
1962	321	385	706	1764	2470	1504	61
1963	314	376	690	1768	2458	1533	62
1964	316	372	688	1847	2535	1657	65
1965	323	372	695	1867	2562	1681	66
1966	329	376	705	1875	2580	1741	67
1967	337	379	716	1850	2566	1785	70
1968	344	376	720	1717	2437	1777	73
1969	359	375	734	1685	2419	1841	76
1970	354	384	738	1677	2415	1931	80
1971	350	390	740	1720	2460	1870	76
1972	355	395	750	1750	2500	1900	76
1973	358	405	763	1785	2548	1877	74

[1] Totals may not always agree due to rounding.
[2] Includes opportunity cost of land.
Source: Haritos, Z., *Transport Costs and Revenues in Canada*, Canadian Transport Commission, Ottawa, 1973, p. 19; Ministry of Transport, *An Interim Report on Freight Transportation in Canada*, Ottawa, June 1973, p. 19; and special tabulations for the years 1971, 1972 by the author.

APPENDIX A-III

RAIL PASSENGER TRAVEL

CANADA

Year	Revenue Passengers (millions)	Revenue Passenger Miles (millions)
1935		
1940		
1945		
1950		
1957	26.0	2,907
1960	19.5	2,263
1965	24.6	2,664
1966	23.2	2,587
1967	24.6	3,135
1968	24.6 (4.0 m. go transit)	2,556
1969	23.7	2,340
1970	23.8	2,272.1
1971	24.1	2,185.9
1972	23.0	2,042.8
1973	19.8	1,595.8
1974	24.1	1,878
1975	23.5	1,820
a. Commuter	18.4 (78%)	253 (14%)
b. Non-commuter	5.1 (22%)	1,567 (86%)

Source: Statistics Canada 52-210, PT IV.

BUS TRANSPORT

Intercity

Years	Passengers Carried (million)	Vehicle Miles (million)
1955	92.2	99.2
1960	68.6	97.3
1965	56.7	105.0
1966	63.7	125.1
1967	67.1	142.9
1968	64.7	132.1
1969	59.2	136.2
1970	60.4	132.2
1971	48.2	128.5
1972*	37.9	127.0
1973*		
1974	37.0	120.3

Growth Passengers
1955-60 - 25.6%
1960-65 - 17.3%
1965-70 + 6.5%
1970-74 - 38.7

* includes only class 1 and 2.

Source: Statistics Canada 53-215

APPENDIX A-III

AUTOMOBILE FLEET IN CANADA

Year	No. of Passenger Cars Registered	Growth #	Growth %
1920	251,000		
1930	1.06 million	755,000	+300%
1940	1.24 million	180,000	+ 17%
1945	1.16 million	-80,000	- 6%
1950	1.91 million	750,000	+ 64.6%
1955	2.96 million	1.05	+ 54.9%
1960	4.10 million	1.14	+ 38.5%
1965	5.27 million	1.16	+ 28.2%
1970	6.60 million	1.33	+ 25.2%
1974	8.47 million	1.87 million	+ 28.3%

URBAN TRANSIT

Year	Passengers Carried* (millions)	Vehicle Miles* (millions)
1955	1,178.9	198.9
1956	1,151.9	203.9
1957	1,125.6	204.0
1958	1,079.7	199.5
1959	1,056.8	200.1
1960	1,029.3	200.9
1961	987.1	198.5
1962	995.1	202.4
1963	998.1	208.1
1964	994.2	212.8
1965	985.1	213.8
1966	1,036.4	240.3
1967	1,075.8	254.0
1968	1,051.6	257.8
1969	1,050.1	256.5
1970	1,018.4	251.6
1974	1,046.3	280.7

Growth (Passengers)		
	1955-60	-12%
	1960-65	-40%
	1965-70	+ 3%
	1970-74	+2.7%

* Includes only class 1 and 2.

Source: Statistics Canada 53-215

APPENDIX A-III

AIR TRAVEL GROWTH

Year	Passenger Miles Flown	Growth of Travel (miles)	Growth %
1921	-	-	-
1931	4.1 million	-	-
1940	38.1 million	34.3	+836%
1945	153.5 million	115.1	+300%
1950	550.5 million	397.0	+259%
1955	1,223.8 million	673.3	+122%
1960	2,947.0 million	1,623.2	+133%
1965	5,065.5 million	2,218.5	+ 78%
1970	10,278.3 million	5,212.8	+103%
1975	18,000 (est.)	7,721.7	+ 75
1976	(3 mo.) 3,928.1	-	-

APPENDIX A-IV

THE REAL COST OF TRANSPORTATION

ACCIDENTS

The task of placing a cost on deaths and injuries which result from transportation accidents is not easy. It is very important that these costs be calculated since the fatality and injury rates per passenger mile vary greatly among modes. The following data from the Interim Report illustrates this point.

TABLE I

EXPECTED RATES OF PASSENGER ACCIDENTS FOR 1975

	1975 rate per 100 million passenger miles	
Mode	Fatalities Canada, 1975	Injuries
Auto	2.40	85.4
Bus	0.24	6.6
Rail	0.10	0.9
Air	0.30	2.4

Source: Intercity Passenger Transport Study, C.T.C. 1970

From these rates and passenger mileage data, it is possible to calculate the numbers of fatalities and injuries from accidents during intercity travel.

The most recent cost data is available on the United States and suggests an average cost of $50,000 per fatality. Using the Workers' Compensation Board figure of 6,000 lost working days per fatality and discounting the future earnings (8% rate) a rough value of $50,000 per fatality is obtained. Non-fatal accidents

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which cause property damage and injuries can be costed at an average of $5,000 although the variance is great.

Taking these cost figures and calculating the annual totals for Canada the following picture emerges:

Mode	Rate[1] Fatalities	Rate[1] Injuries	Passenger[2] Miles	Numbers Fatalities	Numbers Injuries	Cost[3] Fatalities (millions of $)	Cost[3] Injuries (millions of $)
Car	2.4	85.4	80	1,920	68,320	96.0	341.6
Rail	.1	.9	2	2	18	.1	.09
Bus	.24	6.6	2.5	6	165	.3	.825
Air	.3	2.4	18	54	432	2.7	2.16
TOTAL			102.5	1,982	68,935	99.1	344.675

1. Per 100 million passenger miles
2. In billions of passenger miles
3. Values of $50,000 per life, $5,000 per non-fatal accident.

In total, the cost of deaths and injuries from intercity passenger travel total over $440 million per year. This is a real cost of the transportation system which must be included in investment decisions. The above data can be placed on a cents per mile basis as follows.

Mode	Cost of Accidents (millions)	Passenger Miles (billions)	Cost per Passenger Mile (¢)
Car	$437.6 M	80	.55
Rail	.19 M	2.0	.01
Bus	.125 M	2.5	.05
Air	4.86 M	18	.03

It should be realized that these are average figures and that variation between regions may be extreme. For example, poor roads and extreme weather conditions combine to increase the accident rate for northern areas of Canada.

ENERGY USAGE - GASOLINE
MOTOR VEHICLE CONSUMPTION
1939 - 1973
CANADA

Year	Consumption (millions of gallons)	Growth (%)
1939	807.7	
1949	1,683.7	+ 109.1%
1959	3,690.7	+ 119 %
1969	5,617.3	+ 52 %
1973	7,023.4	+ 25 %
1974	7,308.2	+ 4 %
1975		
1976		

Source: Statistic Canada 53-218