Whatever Became of Public Works Planning?

Benjamin Higgins
Department of Economics
The Australian National University
Canberra, Australia

One of the major impacts on economic thought of the Great Depression of the 1930s, the Keynesian Revolution, and World War II, was the replacement of monetary policy by fiscal policy as the major device for economic stabilization, with full employment without inflation as the ultimate objective. Efforts to combat unemployment by monetary policy in the 1930s failed. In the late thirties, deficit-financed spending reduced unemployment. During World War II, the Allied Nations managed to spend more than half their GDP on the war effort, and nevertheless to maintain full employment without inflation and stable foreign exchange rates, by Keynesian fiscal policy (with very low interest rates) buttressed by a few direct controls. All the Allied Nations planned to maintain full employment after the war by deficit spending, without fear of inflation.

The reasoning behind this confidence in fiscal policy as a stabilizing device was perhaps most forcefully and systematically expressed at the time by Alvin Hansen, "the American Keynes", in his two major works Hansen (1941, 1951). These books were virtually "bibles" on monetary and fiscal policy in their day, explaining the limits of the former and the greater power of the latter. On the spending side of fiscal policy, the emphasis was on "public works" (including housing) as the most durable of goods consumed by the general public, and consequently the goods whose production could be accelerated or delayed with the least inconvenience to their consumers. The idea was, accordingly, that public works spending should be sped up or slowed down inversely with fluctuations in private investment, in such a way as to maintain full employment without inflation, as nearly as possible.
All this was "received doctrine" in the late 1930s, the 1940s, and the early 1950s. Yet how remote it sounds today! It is hard now to remember that between 1920 and 1950, the term "Public Works Planning," used without qualification, usually meant planning for the counter-cyclical timing of public works expenditures. As early as 1919, the International Labour Office (ILO), in its recommendation concerning unemployment, stated in paragraph four:

"The General Conference recommends that each member of the International Labour Organization coordinate the execution of all work undertaken under public authority, with a view to reserving such work as far as practicable for periods of unemployment and for districts most affected by it" (Higgins 1946: 309).

Note that in this very early recommendation, ILO recognized that the unemployment problem had a regional as well as a cyclical aspect.

By 1937, this approach to public works policy had gained new importance and respectability from the combination of the Great Depression of the 1930s, the 1937 recession, and the Keynesian Revolution, which provided a more solid basis in economic theory for using public spending to fight unemployment. ILO recommendation (no. 51) concerning the national planning of public works of 1937, elaborated the proposed policy:

"Whereas in the absence of advance planning expenditure on public works tends to increase in years of prosperity and to diminish in years of depression; whereas fluctuations in the volume of employment of workers engaged on public works are thereby superimposed on the fluctuations in the volume of employment arising out of commercial demand, thus aggravating successively the shortage of certain classes of workers in periods of prosperity and the extent of unemployment in periods of depression; Appropriate measures should be adopted for the purpose of achieving a suitable timing of all works undertaken or financed by public authorities; This timing should involve an increase in the volume of such works in periods of depression and for this purpose it is desirable to provide for the preparation in advance, during periods of prosperity, of works capable of being held in reserve or exceeding ordinary requirements and which should be ready for execution as soon as the need is felt; The policy of timing public works should apply to all such works (including works in colonies) undertaken by central authorities, regional or local authorities, public utility undertakings, or any body of individuals in receipt of subsidies or loans from a public authority" (Higgins 1946: 309-310).

This set of recommendations were reiterated in the Declaration of Philadelphia in 1944. Recommendation (no. 73) concerning the national planning of Public Works (1944) had this to say:

"The Conference recommends the Members of the Organization to apply the following general principles, and to communicate information to the International Labour Office, as requested by the Governing Body, concerning the measures taken to give effect to these principles:

1. Each Member should prepare a long-term development programme which can

be accelerated or slowed down in different parts of the country...

2. In applying this policy, consideration should be given not only to the employment situation in the country as a whole but also to the situation in each area and to the particular types of skill available in the area concerned.

3. Local authorities and others responsible for forming schemes for employment should be informed by their central authorities at the earliest possible moment what financial support will be forthcoming, so that the local authorities and technical services may proceed without further delay to prepare plans and to make such practical preparation as would enable large numbers of demobilized soldiers to be absorbed as soon as they are available" (Higgins 1946: 312-313).

The member governments were explicitly called upon to prepare long term development programs which can be implemented in a counter-cyclical pattern, with specific attention to reduction of regional gaps as well.

Nor were these recommendations mere pious statements on the part of delegates regarding things devoutly to be wished but unlikely to occur. On the contrary, they were backed by concrete action at home on the part of individual governments.

For example, in 1941, just a few months after the entry of the United States into World War II as a combatant, the United States government established within the Federal Works Agency, the Public Work Reserve. The purpose of this agency was to assemble a "shelf" of public works, including all goods and services paid for by government, in the form of programs for every federal agency and every state and local government in the country. These programs were to consist of work scheduled over some six years, plus a reserve of additional useful projects, based on careful social and engineering planning and thorough economic and financial analysis. The organization included a small central office staff, essentially to formulate policy and serve in an advisory capacity, and a field staff of over six hundred persons to work directly with state and local government officials. Within one year of beginning operations, the Public Work Reserve had accumulated a shelf of 25,000 projects valued at about $6 billion, exclusive of New York City, which was accumulating its own public work reserve.

In the early postwar years, the Canadian government was thoroughly committed to this kind of policy, stated in the White Paper in Employment and Income submitted to Parliament in April 1945:

"It has not been possible during the war to accumulate a large shelf of ready-planned projects... The government believes, however, that there will be wide agreement on making a substantial beginning along two lines:

1. The undertaking of advance planning of all necessary and desirable Dominion projects so that there may be available a "shelf" of soundly planned projects, ready for execution when prospective employment conditions make it desirable to increase public investment expenditures...

2. The implementation, in cooperation with the provinces, of a new dominion policy of expenditures on the development and conservation of natural resources... " (Higgins 1946: 236-237).

The policy was spelled out in considerably more detail in the proposals of the
Government of Canada to the Dominion-Provincial Conference on Reconstruction in the same year. In this document, the federal government first made the following proposals with respect to its own projects:

"That investment policy be used to mitigate or offset deficiencies in export income or private investment expenditure according to the principles of:
   a) using public investment programmes to strike as near the source of deficiency as possible; and
   b) providing expenditures through established channels in which the deficiencies of income and investment are most severely felt" (Higgins 1946: 237-238).

Especially interesting are the proposals made by the federal government to assure that the provincial and local governments would adopt counter-cyclical timing policies with respect to their public works undertakings.

The federal government offered technical assistance, factual information and grants in aid to assist the provincial and local governments to undertake appropriate planning of their public works. In addition, the Dominion offered the provinces grants under the following conditions:

"... The Dominion proposes to adopt a policy of attaching control of timing wherever it is paying grants for public projects (e.g., mining, roads or technical schools) if the project can be reasonably postponed. The Dominion further proposes to pay a specific grant of 20 percent of the cost of provincial and municipal public investment projects if:
   a) they have been accepted and registered by the Dominion authority as fully planned projects prior to the time of execution;
   b) they are executed in a period designed by the Dominion authority" (Higgins 1946: 239).

Thus, we see that up to about 1950 the Canadian government, along with governments of virtually all advanced non-socialist countries, was committed to a policy of counter-cyclical timing of public works expenditure. The federal government was prepared to provide substantial subsidies to bring the provincial and municipal governments into line with regard to timing of public investment.

Two decades later, such a policy was scarcely discussed in Canada, let alone applied. Canadian governments gradually and largely unconsciously drifted back to the old practice of aggravating economic fluctuations, particularly fluctuations in employment, and above all fluctuations in the construction industry, by adopting a cyclical pattern of public works spending conforming to the cyclical pattern of private investment. The result was that postwar fluctuations in employment, and in total activity, in the construction industry were considerably more violent than in the national economy as a whole.

The End of the Prewar Business Cycle

The main reason for the declining interest in a policy of public works spending, at all levels of government, designed to reduce the amplitude of economic fluctuations as much as possible, is, obviously, the disappearance of the prewar business cycle on which this proposal was based. The prewar cycle with its alternations of inflation and unemployment had been replaced by fluctuations which took the form of shifts in the trade-off curves between inflation and unemployment, or cyclical loops, with unemployment and inflation moving together much of the time (Higgins 1988).

In the century and one quarter between the end of the Napoleonic Wars and the end of World War II, "business cycles" in Europe and North America consisted of relatively long periods when unemployment fell while employment, output, and prices rose together; and relatively short periods when unemployment rose while employment, output, and prices fell together. Today, general price levels rarely seem to fall; total output and employment fall only slightly; unemployment fluctuates considerably, and (except for short periods during the 1950s and 1960s in Australia and some European countries), never disappears. All governments are confronted with a set of options regarding combinations of unemployment and inflation, known as the "trade-off curve."

Trade-Off Curves

In my conception, trade-off curves (TOC) are just what the term implies: a set of optional targets, attainable through management of the money supply by orthodox, macroeconomic monetary and fiscal policy alone. They do not assume that unemployment is a function of the rate of inflation, or vice versa. Rather the points representing combinations of unemployment and inflation observed in any period (a year, a quarter, a month) are the result of the operation of the entire economic system, including government policy, expectations regarding it, and reactions to those expectations. The question as to how many points lie on the same curve depends on whether or not the authorities could, in fact, for the period covered by the curve, have chosen any of the other points on the curve, besides the one actually observed, by altering monetary or fiscal policy or both. There is, of course, no way of determining for certain what points lie on a trade-off curve construed in this fashion. A good fit of a scatter of points to some econometrically derived curve is no proof that the points could actually have been attained by changes in policy, although if the fit were very good and the equation used had a large number of well-selected variables, one might argue that the other points probably could have been attained by alterations of macroeconomic monetary or fiscal policy. The points selected for a single TOC must first of all look as though they lie on a single curve. When unemployment and inflation move up or down together the curve has obviously shifted. Second, general knowledge of the economy and its behaviour should predispose the observer to the view that the authorities could, in fact, have selected any of the options depicted by the TOC, during the period covered by it.

Unemployment and inflation sometimes move in opposite directions, some-
times move up together, and sometimes move down together, in what seems to be a fairly systematic fashion, as presented in Figure 1 for Canada from 1955-1994. These are, as yet, very imperfectly understood; but since the loops are of different sizes, my hunch is that they may be the postwar transformation of the Kitchin, Juglar and Kondratieff cycles of prewar days. Differences in the TOCs for different regions will, of course, result in differences in the cyclical loops of different regions. For diagrammatic simplicity we limit ourselves to the differences in TOCs among Canadian regions - their position, slopes, and movements - which are important for public works planning. The behaviour of TOCs and loops receives more analysis in Higgins (1988).

Clearly, the 1940 or 1950 image of the national and world economies, and the analytical framework which was designed to explain their behaviour and provide a basis for policy, was a far cry from the picture of the functioning of economic systems presented above. "Public Works Planning" of the 1920 to 1950 era was related to the prewar business cycle and -- long before the publication of Keynes's General Theory -- was based upon a very simple and highly aggregative form of Keynesian economics. During the immediate postwar period, the effort of central governments in North America, Australia, and western Europe (and particularly in those countries with federal constitutions) was still to assure synchronized public works policy at all levels of government, to avoid the "perverse" behaviour of lower levels of government of the sort which occurred in the 1930s (when central government efforts to expand employment by public works spending were frustrated by budget cuts and tax increases at the state or provincial and local level; see, Hansen and Perloff 1944).

As the 1950s drew on and the expected and feared postwar depression failed to materialize, unemployment remaining within bounds while prices continued to rise, interest in this kind of public works planning quite naturally abated; "counter-cyclical" public spending by all three levels of government marching in harmony makes no sense in an economy where inflation and unemployment not only exist side by side, but can actually move up or down together. "Public Works Planning" in the sense of counter-cyclical timing was quietly dropped. Curiously enough, however, few indeed were the government economists or politicians who drew the obvious corollary: that a situation of simultaneous inflation and unemployment is one in which "counter-cyclical" monetary policy or "counter-cyclical" tax policy also cannot work.

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2. While the classic work on this subject is still Hansen and Perloff (1944) a similar argument is made for Canada in the Rowell-Sirois Report of 1940.

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The Demise of Fiscal Policy

As the world moved into the 1970s, 1980s and 1990s, the situation with regard to policies designed to avoid unemployment and inflation deteriorated further. What to do when unemployment and inflation occur side by side? No government can cut and increase taxes, or spending, simultaneously. With the replacement of alternating unemployment or inflation by shifting trade-off curves and loops, most governments of the industrialized capitalist countries, including Canada, simply gave up on "full employment without inflation," and tossed counter cyclical fiscal policy out the window. As a consequence, monetary policy once again reigned supreme.

Today, in Canada, the United States, the United Kingdom, Australia, and western Europe, instead of a combination of monetary and fiscal policy designed to stabilize the economy, what we see is something quite different. The size of the budget reflects what the government feels it must spend for social welfare programs and defense. The government then decides how much it can try to collect in taxes and still stay in power. These two decisions determine the size of the deficit. Then the central bank authorities estimate how much inflationary pressure this deficit will generate, and determine their monetary policy, especially interest rates, accordingly. The bizarre result, with the highly sophisticated business communities we have today, is that increases in
budget deficits, which in a simple Keynesian model would reduce unemployment, lead instead to expectations of a tighter monetary policy, reducing investment and increasing unemployment.

Canada, and other industrialized capitalist countries, gave up too soon when it comes to fiscal policy. When one breaks away from the simple Keynesian framework, which treats the national economy as an homogenous whole, without differentiations by region; when one regards national economies as the bundles of regional economies which they in fact are, with varying degrees of integration and disintegration; when one recognizes that the amplitude and timing of economic fluctuations can differ a good deal from region to region; when one takes account of differences in height, slope, and shifts of regional trade-off curves, then one is led to opportunities to fight unemployment and inflation together by planning not only the timing but the placing of public spending.

The Construction Industry

Meanwhile, the defeatism with regard to stabilizing the economy has gone so far in Canada that the government has actually contributed to the destabilization of the economy by the policies pursued since the war. This negative impact shows most strikingly in the construction industry, which is, of course, the industry most affected by public works policy.

Historically, the construction industry has reflected the growth and development of Canada, but its path of development has been anything but smooth. In cyclical terms, the investment component of GDP has accounted for roughly 50 percent of GDP instability since 1926. The construction industry, as a major avenue of investment, had more than its share of instability. While instability in general, and in construction in particular, has lessened considerably since the interwar years, there is certainly no cause for complacency, and no assurance that this trend will continue. In fact, the recent investment trough and anticipated heavy capital requirements during the next decade suggest that the amplitude of fluctuations may well increase.

The unemployment rate in the construction industry runs consistently higher than in the national economy as a whole. In recent years, it has run at roughly double the average for the national economy as can be seen in Table 1. Seasonal unemployment can reach 40 to 50 percent in some months and in some regions of Canada. Even on an annual basis, in 1994, the unemployment rate ranged from 53 percent in Newfoundland to 21 percent in British Columbia and Alberta. In May 1991 - a relatively good month - it ranged from 44.1 percent in Newfoundland to 14.9 percent in British Columbia (See Table 1).

Construction wages and costs, perversely, have risen faster than the national industrial wage rate or the GDP deflator; thus, the construction industry is aggravating both unemployment and inflation at the national level.

While the construction industry has shown signs of becoming less unstable in the past two decades, it is still one of the most volatile sectors in the Canadian economy and, therefore, one crying loudest for some effective stabilization policy. The inherent instability of the construction industry is, obviously, closely related to the durability of its product. Once a building cycle is implanted in any economy, it tends to repeat itself. A housing boom, for example, is likely to be followed by a housing recession until population growth builds up enough pressure on the existing stock of housing to generate another boom. The same durability, however, makes the construction industry a strong candidate for a counter-cyclical policy. Building can be either postponed or accelerated without too much dislocation of consumers' needs. If no milk is produced, consumers soon run out of milk. If no houses are built, consumers do not run out of housing; all that happens is that the amount of housing space available per capita declines somewhat. To convert the construction

### Table 1 Construction Unemployment Rates, 1986-1994

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<tr>
<th>Year</th>
<th>NF</th>
<th>PE</th>
<th>NS</th>
<th>NB</th>
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<td>10.1</td>
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A) Construction Unemployment Rates (%) for the Provinces, 1986-1994

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</table>

B) Construction Unemployment Rate (%) for Canada, 1986-1994

C) Unemployment Rate (%) for Canada, 1986-1994

Towards Full Employment Without Inflation

There is, of course, no reason to limit governmental efforts to achieve full employment without inflation to "planning public works." The very fact that the Canadian economy is a regionally and sectorally disaggregated one, full of structural imbalances and frictions, paves the way toward designing fiscal policy in such a way as to reduce unemployment, inflation, and regional disparities all at once. However, here we can present only a brief outline of what such a fiscal policy would be like.

Structural Imbalance and the "Natural" Rates of Unemployment and Inflation

In its twenty-seventh annual review, entitled Transitions for the 90s, the Economic Council of Canada (ECC) at last got around to the fact that the Canadian national economy, far from being a homogeneous and harmonious whole that could be fine-tuned by simple macro-economic policy alone, applied uniformly throughout the land (as most of their earlier publications implied), is a loosely tied bundle of regional economies, with sharp differences in economic structure and in economic performance.

Each province has its unique economic structure -- a particular mix of industrial and demographic characteristics. Part of the regional disparity in unemployment rates can be explained by structural differences (for example, a concentration of highly seasonal industries or of people with low educational attainment in one province). But part of the disparity can also be explained by local market conditions and policy factors, such as the way in which incentives to work are influenced by local market conditions and policy factors, such as regulations governing minimum wages, social assistance, and unemployment insurance. Work done by the Council throws light on the importance of economic structures in explaining regional disparities in unemployment rates (Economic Council of Canada 1990: 34).

This structural disintegration of the Canadian economy means that full employment without inflation, or reduction of regional disparities, cannot be achieved by any uniformly applied macro-economic policy, let alone by monetary policy alone. Mainstream economists of neoclassical bent, who abhor any kind of discrimination by region in economic policy, and thus oppose any intervention at the regional level, tend to meet this problem by saying in effect that Canada already has "full employment". On the inflation side, this group splits in two. Some argue that curtailing inflation will increase employment by improving expectations. Others argue that inflation cannot be curtailed without increasing unemployment. As the ECC points out, this group identifies "full employment ... with the natural rate of unemployment or the non-accelerating inflation rate of unemployment (NAIRU)" (ECC 1990: 43). The natural rate of unemployment is defined by some economists as the rate consistent with a stable price level, but more frequently today, it is defined as the rate consistent with a stable rate of inflation. However, such a flexible and easy-going definition is rejected by a good many economists, including some formerly attached to the ECC. They lean toward the definition which makes "full employment" mean that only frictional unemployment exists, which would bring the unemployment rate down to "about 2 or 3 percent," as compared to a NAIRU "between 7.6 percent and 8.0 percent" for Canada in recent years (ECC 1990: 43).

One can easily formulate a concept of a "natural rate of inflation" analogous to the natural rate of unemployment: the lowest rate of inflation consistent with a stable rate of unemployment. This concept, however, has not been frequently used, and efforts to measure it are rare.

Given the complex structure of the Canadian economy, the level of frictional and structural unemployment, which remains when the aggregate effective demand for labour just equals the aggregate effective supply, tends to be high. Both the natural rate of unemployment and the natural rate of inflation are constantly changing, with changes in participation rates, unemployment insurance benefits, immigration and migration, expectations, and the like. Instead of attempting to define and measure "full" employment and the "natural" rate of inflation, we might do better to think in terms of a "tolerable and attainable combination of inflation and unemployment." In effect, such a policy would amount to trying to find the optimal attainable position on the community indifference curve between inflation and unemployment. That would not be an easy task; but the optimal point would not be "price stability at any cost in unemployment;" and essential as sound monetary policy is for stabilizing the economy, the optimum could not be attained by monetary policy alone. But in the author's view, such a target is attainable without direct controls. A study made within Public Works Canada estimated that a policy of "public works planning" to achieve the optimal timing and the optimal placing of public works expenditures, could reduce unemployment by 2 percent, bringing unemployment half way from a "natural" rate of 8 percent to a "tolerable and attainable rate" of 4 percent. Moreover, the study shows that such a policy, properly designed, could reduce inflationary pressures and regional disparities at the same time (Higgins 1978).

What the study does not include is an analysis of the impact of monetary policy on various regions in Canada. Monetary policy is usually treated as though it were regionally neutral; but obviously changes in interest rates or
exchange rates can have different effects in different regions. This is a subject that has been sadly neglected, and which needs careful study, so that means can be found of offsetting harmful effects of monetary policy in disadvantaged regions by other kinds of policy.

Building on Structural Imbalance Among Regions

The trick in designing such a policy lies in converting the imbalances among regions into assets, taking advantage of them to reduce inflationary pressure where it is generated, and reducing unemployment where it is concentrated. Two characteristics of the Canadian economy make such policy possible: 1) the timing, amplitude, and configuration of regional business cycles differ markedly among regions, and 2) the position, slopes and shifts of trade-off curves, and the configuration and slopes of the corresponding loops also differ markedly from one region to another.

Figure 2 presents regional economic fluctuations measured as differences between regional and national unemployment rates. It is apparent at a glance that the configurations of these fluctuations differ a great deal from region to region. The actual levels of unemployment have been consistently above the Canadian average in the Atlantic provinces and Quebec, consistently below it in Ontario and the Prairie Provinces (with one exception in 1988). The only region to cross the horizontal line of the Canadian average is British Columbia. The British Columbia economy is the most volatile of all but, most of the time, its unemployment is well above the Canadian average. The Prairies had a low level of unemployment from 1961 to 1973, much the same as in Ontario, and much the lowest rate from 1974 to 1983, after which the employment situation in the Prairies deteriorated rapidly in response to falling oil prices. The amplitude of fluctuations in Quebec has been relatively restrained and the level has remained between that of the Atlantic provinces and that of Ontario and Canada.

Even more interesting is the fact that there have been periods when the employment situation moved in opposite directions in different regions. Between 1961 and 1967, the employment situation was improving (relative to the Canadian average) in the Atlantic provinces and Quebec, but deteriorating in Ontario and the Prairies, while remaining more or less unchanged in British Columbia. After 1969, in the Atlantic provinces, and after 1976 in Quebec, unemployment increased (relatively) whereas the position of Ontario and the Prairies was little changed between 1965 and 1973. After 1973 Ontario's position was much the same as before until 1980, when its position improved further. In the Prairies, unemployment became the lowest of all regions after 1973, and remained lowest until 1983, when there was a sharp increase that brought unemployment well above Ontario and up to the Canadian average. Between 1982 and 1985 the employment situation deteriorated (relatively to Canada) in all regions but Ontario and Quebec. Between 1982 and 1985 unemployment fell absolutely in all provinces but Prince Edward Island. In the 1990s, unemployment increased again in Ontario, and the lowest rates of unemployment were once again in the Prairies.

With such contrasting behaviour of the regional economies, no simple and uniform macro-policy could move the national economy very far toward full employment without inflation. It is apparent, however, that much could be done to combat both unemployment and inflation through a finely tuned and regionally differentiated fiscal policy. Throughout the whole period in Ontario, and during the minerals boom in the Prairies, inflation could have been contained by restraining government expenditures on postponable projects. Throughout the whole period, and especially after 1972, unemployment could have been combatted by increasing government expenditures in the Atlantic provinces and Quebec. Such a pattern of fiscal policy would have contributed to the reduction of regional disparities as well.

The potential for fighting unemployment, inflation, and regional disparities all at once emerges most clearly from a consideration of regional differences in Trade-Off Curves (TOCs). Table 2 provides figures for unemploy-
TABLE 2 Unemployment and Inflation, Canada and the Provinces, 1986-1994

A) Unemployment Rates for the Provinces (%)

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<td>NF</td>
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B) Consumer Price Index for Canada–All Items, 1986-1994, 1986=100

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Source: Statistics Canada, Historical Labour Force Statistics and The Consumer Price Index

ment and for the consumer price indices for all provinces for 1986-1994. It also provides the consumer price index for Canada. From the table we see that Ontario was the only province with a rate of inflation consistently above the national average. Saskatchewan had a rate of inflation about equal to the national average. All other provinces had a rate of inflation below the national average. Considering the dominant position of Ontario in the national economy with some 40 percent of the population and more than half the GDP, there can be no doubt that Ontario was the main source and generator of inflation in the national economy. Price movements in other regions, while not entirely unaffected by internal market forces, reflect more than anything else the increased money supply, and consequent inflation, resulting from the spread effects generated by economic expansion in Ontario.

In a country without internal trade barriers and a common currency, price differentials among regions cannot for long exceed costs of transport from one region to another for transportable goods and services. Even prices of non-transportable goods and services (housing) in one region will be affected by prices in another through their impact on movements of people. For example, the high costs of living and doing business in Toronto are enticing some entrepreneurs to move to small towns in the Maritimes, tending to reduce disparities in both prices and unemployment; however, these forces are not powerful enough to equalize either prices or unemployment. It is worth noting at the same time that the forces tending to equalize prices are very much stronger than the forces tending to equalize the rates of unemployment. In early 1993, for example, the spread in the consumer price indices was only from 130.7 in Ontario to 123.5 in Newfoundland; whereas the spread in unemployment was from 19.7 percent in Newfoundland to 9.5 percent in Alberta (10.7 percent in Ontario).

Comparing Trade-Off Curves

To economize on space, we present, in Figure 3, only the TOCs for Ontario, Quebec, and one province each from the Atlantic provinces and the Prairies. We have chosen Newfoundland for the Atlantic provinces, because it has had the highest level of unemployment; and Saskatchewan for the Prairies, because it has had the highest rate of inflation. For comparison purposes, the reader should refer to Figure 1, which displays the same data for Canada.

Examining Figure 3, we see first of all that the TOCs for Ontario are relatively close to the vertical axis. The Ontario TOCs are also very steep. A substantial cut in the rate of inflation (at least up to 1991) would bring only a modest increase in unemployment. The TOCs of the Atlantic provinces (Newfoundland) are much further to the right, closer to the horizontal axis, and relatively flat. Increased expenditures in order to reduce unemployment would bring only a modest increase in inflationary pressure. The curves for Saskatchewan and Quebec are in between, Saskatchewan being closer to Ontario, and Quebec being closer to Newfoundland, in their general configuration. In general, we can say that cutting government expenditures in Ontario, by eliminating postponable projects, in order to reduce inflationary pressure in
the economy as a whole, and spending the money thus saved in the Atlantic provinces and Quebec, would bring only modest increases in unemployment in Ontario and only modest increases in inflationary pressure in the Atlantic provinces and Quebec. In the national economy as a whole, both unemployment and inflation would be reduced, with no net increase in federal government spending or in deficits. Regional disparities would also be reduced.

Also obvious, however, is that successful pursuit of such a policy would not be a simple task. It cannot be a matter of a once-over decision to pursue a certain pattern of geographic distribution of government spending of the sort that underlay the original legislation establishing the Department of Regional Economic Expansion. The relative position of Canadian provinces and regions, with regard to inflationary pressure and unemployment, and with regard to regional disparities of various kinds, is constantly changing and would have to be constantly monitored. Administering such a policy efficiently would require a great deal of knowledge about interregional flows of all kinds, about spread effects and backwash effects in other regions of an increase or decrease in spending in each region. It would require, too, a knowledge of the impact of such policy shifts on rational expectations. It would impose a challenging task on those who formulate and implement economic policy at the local and provincial as well as at the federal level. But surely the challenge should be accepted if there is hope thereby of reducing inflation, unemployment, and regional disparities all at once.

Among the things that such a strategy would require is reintroduction of some of the concepts, ideas and activities that went under the heading of "public works planning," in 1950: the accumulation at all levels of government of "shelves" of fully-planned work projects; a clear determination of which projects could most easily be postponed and which most easily "telescoped" (brought forward); establishment of "labour patterns" (monthly employment creation throughout the life of the project); measurement of leakages from public works undertaken in one region to other regions (imports of raw materials and equipment, professional and skilled labour, technology and information). Projects on the "shelf" -- or at least a goodly proportion of them -- should have been carried to the point of working drawings and specifications, and even land acquisition, so that they can be thrown into the breach immediately when serious and unexpected unemployment appears in some region. Such a strategy, of course, requires some modest increase in spending at times and in places where unemployment is relatively low; but most of the work could be done by existing departments of federal and provincial public works, town planning departments, etc. and the additional costs would be only a minuscule fraction of the costs of construction to be undertaken when and where unemployment is high.

![FIGURE 3A: Trade-off Curve for Newfoundland](image1)

![FIGURE 3B: Trade-off Curve for Quebec](image2)
"Public works planning" in this sense is certainly not the be-all and end-all of a policy to move the Canadian economy toward a position of full employment without inflation. We would still need a solid foundation of appropriate monetary and macro-fiscal policy, supported by appropriate sectoral, industrial, and regional policies. But converting public works spending, in the broad sense of the term, and at all levels of government, into a stabilizing factor instead of the destabilizing factor it now is, would give the national economy a hearty push in the direction of full employment without inflation.

References


