Introduction

One approaches a publication of the Fraser Institute with the anticipation that whatever the problem being addressed, the culprit when exposed will inevitably turn out to be too much government interference with freedom of exchange in the market place. Should the reader be sympathetic to this point of view, he will look forward with relish to the argument as it unfolds. Alternatively, if not of like mind, he would in all probability not run the risk of having his prejudices importuned by reading the book in the first place. Judged in this light, Canadian Confederation at the Crossroads will be a disappointment to both camps in that the size and ubiquity of government in Canada today is, if anything, accepted as a fait accompli, and the only question is how the spoils will be divided between the various levels of government. Not that this is immediately evident, since in the preface the editor, in justifying this collection of essays, states:

This Fraser Institute study arose from the judgement that much of what is interpreted as separatist sentiment in Quebec, and in the West and in the Maritimes, could well, in fact, represent a deeply rooted reaction to a rising feeling of alienation from government. The justifiable desire for personal and regional autonomy, it seems, is being increasingly thwarted by the encroachment of an ever larger and ever more remote governmental structure. The purpose of this study was therefore to examine the scope for constructive adaptation to these sentiments within the framework of our existing constitutional structure (p. xiii).

Such is the stuff of which the Fraser Institute is known to be made. But a funny thing happened on the way to the printer and this is reflected in the final sentence of the preface.
However, owing to the independence of the authors, the views expressed by them may or may not conform severally or collectively with those of the members of the Institute (p. xx).

As the preface further confesses, the authors “have come to a variety of conclusions” about the workings of our present political institutions and where we should go from here. This may be somewhat misleading in that the several essays deal with a disparate set of specific issues and hence a variety of conclusions would be expected, since there would be practical considerations peculiar to each. But the lack of consistency goes deeper than that, emanating it would seem from a different set of criteria against which the various proposals are judged. Perhaps, and because this is not clear it will receive further comment, the ultimate goals implicit in each author’s contribution are not only not cast in the same mold but differ in content.

Before pursuing this theme, however, let credit be given where credit is due. Canadian Confederation at the Crossroads consists of eight essays by academics, lawyers and businessmen plus a summary introduction by the editor. It is a book which embodies both competence, usefulness, and an agreeable style. Moreover, it is a book that needed to be written and should be read by all those who are touched by the constitutional debate; that is, by all intelligent Canadians and near Canadians. The particular value of this volume is that it addresses itself to the very real problems of constitutional reform and its implications for the well-being of Canadians. This collection of papers eschews the rhetoric attached to so many discussions of Confederation and provides the careful reader with a realistic insight into the major complexities of the issues involved. Nor does it focus attention on the design of constitutional forms. Canadian Confederation at the Crossroads does not treat the creation of a federal state as an exercise in itself-instead it is seen as the means to an end.

On the basis of factual content, the essays may be roughly classified as dealing with intergovernmental fiscal relations, regulatory matters, and the legal system, although there is no attempt to organize the book along these lines; that is, the separate papers are distributed in random fashion through the volume. Whether this pattern lends itself to a nice change of pace for the reader or tends to disrupt one’s train of thought is perhaps mainly a matter of taste. Since the essays are individually self-contained it may appeal more to the reader who is prepared to seek leisurely enlightenment, as opposed to instant wisdom, and in this sense can claim virtue.

The first category, intergovernmental fiscal relations, consists of three contributions. Perrin Lewis of the Bank of Nova Scotia traces development since the Rowell-Sirois Report of federal-provincial financial arrangements. Economist Thomas J. Courchene argues that transfer payments perpetuate regional disparities by thwarting basic adjustment mechanisms and are thus self-defeating. Politician Courchene then hastens to suggest criteria that will simultaneously reduce personal income inequality and satisfy provincial demands for autonomy, a neat bit of legerdemain. Douglas Auld speculates on the possibility of letting provincial governments deficit finance with the connivance of the Bank of Canada, a major concession by a macro-economist.

Insofar as regulation is concerned, John Pattison of the Business School at the University of Western Ontario explores the need for a more rational allocation of regulatory powers between the two senior levels of government. Pierre Lottie of SECOR Inc. is more directly concerned with the role of the provinces as regards the cultural side of our nature, focusing on education, broadcasting and language rights. Michael Goldberg of U.B.C., in seeking to discern the shape of Canada’s housing and urban development policy, strives valiantly to overcome his “nymophobia”, or fear of acronyms.

Lawyers Peter Shirky and Michael Trebilcock comment on the supposed virtues inherent in the uniformity of law as seen from Toronto. As viewed from the Prairies the related, though distinct, matter of enforcement of the Criminal Code is scrutinized by Saskatchewan lawyers Brian Grossman and Michael Finlay.

Obviously, these papers are diverse in approach, analysis and content. If there are common threads running through them, they are that each assumes greater power devolving upon the provinces and an attempt to reduce the significance of spillover and neighbourhood effects to an administratively feasible minimum. At the same time the authors stress that it is desirable that local preferences be instrumental in decision making. Courchene is, however, the only contributor to directly confront the fundamental issue of whether the present configuration of provinces is the appropriate administrative complement to the central authorities.

This returns the discussion to the absence of a definable Fraser Institute ideology in this book. Objectivity and independent analysis is always praiseworthy, but so is a focus on the fundamental issues which are at stake. It would be a truism to say that the ultimate concern is for the welfare of the people of Canada, as each of the authors would be quick to proclaim. But surely the basic difficulty, and the really interesting issue, is how to overcome through agreement the obvious confrontation between a centralized authority and existing smaller though equally viable political jurisdictions. This raises the question of why this particular confrontation has occurred to such a degree at this time. At the very least a useful working hypothesis would be that this phenomenon has resulted from the
vastly expanded role of government in our economy, an expansion that cannot be rationalized on the grounds that the demand for true public goods is highly income elastic and thus a response to higher incomes.

The essays in this volume reflect this increased importance of government in that they underline the difficulties of rapprochement by dwelling on the many complex arrangements already in existence to resolve conflicts. One might not like the explanation, but it would have the dual advantages of directing attention to what the citizens receive from government and to what each level of political jurisdiction hopes to achieve. Such a proposition does not necessarily say anything about some innate superiority of the market system, but it does enquire to what extent political authorities can ignore with impunity the imperatives of free exchange. If there is a fault in this publication of the Fraser Institute, it is that the lack of an overall hypothesis has dissipated much of the force of the collective analysis.

Perhaps this weakness is foreshadowed in the title, which combines the two notions of a highway map and a balancing act. The symbolism of uncertainty tempered by a desire for justice is not to be overlooked either. If metaphors are to convey some meaning then such indiscriminate mixing is inexcusable. A more apt title might be—and this is only a suggestion—

Canadian Confederation at the Crossroads: Whither Now O Tandem-Trailer of State?

Well, it does suggest some respectable precedents, and as for the symbolism, one must allow that it is both topical and germane. Whether a rose by any other name would smell so sweet can best be determined by physiological dissection; hence the essays are examined by combining them into the categories previous suggested.

Intergovernmental Fiscal Relations

"The Tangled Tale of Taxes and Transfers" - Perrin Lewis
"Avenues of Adjustment: The Transfer System and Regional Disparities" - Thomas J. Courchene
"Decentralizing Fiscal Policy" - Douglas A.L. Auld

These three papers hang together in that they are all concerned with government expenditures. The first two obviously address the same category of expenditures, namely transfers, and although the essay by Auld is concerned with spending on goods and services, it can be argued that fiscal policy expenditures can and should be put into the same context.

Despite its charming alliteration, the title of the paper by Lewis is really a misnomer. The tale which he tells is not tangled at all, rather it is the taxes and transfers that are tangled, and the author comments on the legendary complexity of the subject in his introduction. Thus it is all the more pleasant to encounter what must be the clearest exposition yet written about intergovernmental fiscal relations in Canada, done comprehensively and with a style that hints of benign humour in contemplating the tangle. Perhaps it can best be characterized as the busy man's guide to federal-provincial fiscal relations and should be required reading for all those mortals bold enough to claim expertise in the great Canadian Constitutional Debate.

In addition to a chronological and factual history of the fiscal arrangements, Lewis provides insights into the agreements, near agreements, and disagreements which have inevitably underlain the whole process. Generally speaking, he views the sequence of events beginning with the Rowell-Sirois recommendations as a persistent attempt at centralization by the federal government. Consequently, he tends to interpret the three strands of fiscal relations which he identifies, namely tax sharing, unconditional grants and shared cost programmes, in terms of this imperative. Unfortunately, this begs the question of what motivated the "feds". It is of course possible to fall back on some simplistic desire for hegemony and view the post World War II era as just a continuation of the federal-provincial confrontations over jurisdiction which have swung one way or the other since the inception of Canada. But for most of the earlier period this struggle took place in Parliament and the Supreme Court. The significant aspect of recent years has been the creation of the new form of federal-provincial negotiations, manifested by the extraordinary proliferation of agencies, committees, commissions and taskless forces involving the two levels of government. A second theory popular in some parts of this far-flung Dominion holds that there is a conspiracy which equates the activities of Ottawa with the interests of Ontario and Quebec. There is much to be said about this model, but it is not all supportive. Unfortunately, it is difficult to differentiate the successes of conspiracy from the advantages which naturally accrue to sheer superiority in numbers. One can cite the apparent discrimination practiced during World War II in locating a disproportionate percentage of industrial plant and equipment plus infrastructure in Central Canada.

There would, however, seem to be more than this involved. One important aspect of the war effort was to concentrate in Ottawa a large number of highly intelligent and articulate individuals whose social consciences had been offended by the Depression. Many of them remained to make their careers in government. There emerged from this group a consensus of what should constitute a humane in-
dustrialized society and in this sense the policies were indigenous to Central Canada. Essentially a shopping list of specific social policies had evolved, much like that contained in Britain’s Beveridge Report, and over the next twenty-five years these were gradually introduced; the final major item to be put in place being medicare. Although these initiatives might be most closely associated with the Liberal Party ideology, it is likely that the Conservatives would have gone the same route. Consistent with and actually integral to this scheme of things was an increase in overall government expenditure, partly to finance the basic programmes and partly to buy support for them.

Unfortunately, the medications which have been administered for what were perceived as social ills, although initially quite sweetly palatable, turned out to have some undesirable side effects. These were sufficiently serious to put the future of our federal state in jeopardy. Lewis comments on these specific problems and reiterates what numerous other writers have stated elsewhere. Throughout his paper he emphasizes the distortion of regional and provincial priorities as the most serious irritant to the body politic of Canada. At one point Lewis overreaches himself in attributing the reluctance of French Quebecers to migrate more to discriminatory language legislation in other parts of Canada than to the influence of transfers in reducing the incentives to move. The fact is that prior to recent years large numbers of Francophones migrated to the U.S. in search of better economic opportunities. Since many located in California, one wonders how important are the psychic income returns from language and culture to many Quebecers. The author also fails to consider who, within a region or province, actually benefits from federal transfers, or for that matter from the different kinds of transfers. But then, to be fair, what do any of us really know about the matter?

These quibbles aside, Lewis and the Fraser Institute are to be commended for providing such a readable account of what is surely the most pervasive aspect of the Canadian experience in recent years.

The paper by Courchene suffers by comparison with earlier versions of it which already had fairly widespread circulation. In particular, it does not contain nearly the incisive analysis and clear cut policy recommendations that lent credibility to the author’s previous efforts, whatever one thought of his conclusions. To give Courchene credit, he does make an effort to suggest “The Way Ahead” but regrettably this amounts to little more than pious generalities about what the new policy of Canada should ensure. For example, for “guaranteeing individual economic rights” in his Proposition 1:

It is essential that no Canadian individual or family receives an income that is below some generally accepted poverty level (p. 173).

The problems of making such a dictum operational are too well known to require comment here, but he further compounds the ambiguity by a garbled argument for the “poverty level” to be defined differently across provinces and between urban and rural areas. Since he had previously espoused the negative income tax, we are at least left with the magic wand for performing the necessary miracles.

Similarly, for “guaranteeing provincial economic rights” in his Proposition 3:

The provinces must be allowed greater scope for tailoring the institutional and economic fabric of their respective economies to suit their own development needs (p. 178).

Ultimately, this rhetoric degenerates into a poor variant of the argument for unconditional over conditional grants. But it also perpetuates the common fallacy that the provinces are the ideal, or only, sub-federal political units for giving expression to local preferences. This is a proposition that hardly accords with the feelings of Northern Ontario, the Anglophones of Montreal, the people of Labrador, the Acadians of New Brunswick and, before the list grows too long, the citizens of Winnipeg vis-à-vis the formerly rural-dominated Manitoba Legislature. And it should be noted that the above groups are all delineated by location and not by cultural or ethnic criteria as in the case of other potentially dissident minorities more geographically dispersed, like the Indians or Inuit. That is, they are all capable of being represented by political jurisdictions characterized by spatial contiguity, which is the sine qua non of our form of representative government. In the absence of institutions imitating the Estates General we will continue to relegate functional representation to collective bargaining, the lobbying of the Canadian Manufacturers Association, the Canada Council, and the Committee on the Status of Women.

Regrettably also is the fact that Courchene feels compelled to ride some questionable hobby horses of social policy that do not belong in the race for a new constitution. Predictably, they stumble; and in the worst instance a broken leg requires that the poor beast be shot. According to the author, the Canadian immigration policy is misguided because it discriminates in favour of skilled migrants as opposed to the German practice of encouraging the non-skilled. There follows a curious line of reasoning that says this practice will discourage Canadians “from acquiring more skills or education” and that “there will be a natural tendency for Canada to underinvest in education simply because we can obtain the needed skills via im-
migration." Since the migrants to Germany are considered only temporary or, at best, third rate citizens and our immigrants are intended to be bona fide "Canadians", one would think that this was an enlightened policy for building up our human resources. It is certainly cheaper than providing the training ourselves, and once the nation has acquired these skilled workers, there is obviously less need for training. To misconstrue this underinvestment in the training of Canadians is to unwittingly differentiate between native Canadians and newcomers in what might be referred to as the "Maggie Thatcher syndrome". In short, the author has overlaid his basic thesis with both the insanities of the harried politician and the rhetorical practice of the clergy to adumbrate an analogy with frequent recourse to the words "avenue", "way" and "crossroads".

Courchene, the economist, has zeroed in on the two crucial weaknesses of the rationale for centralization put forward by those who view its greatest virtue as the elimination of regional disparities. The validity of his paper should not be demeaned by the aforementioned red herrings, for though they may be ubiquitous they are not fundamental. The essence of his argument is, first, that the institution of interregional transfers has been disfunctional (to use the sociologists' jargon) and, second, that there exists a basic conflict between policies designed to increase the welfare of people as opposed to the welfare of regions. The latter must remain a question of value judgements amenable only to academic debate over the logical consistency of its many facets. As stated elsewhere, it is the issue of whether government should accentuate the welfare of people or get into the real estate business. In a way it is a matter of how best to serve humanity, although it has many other ramifications. As expressed by Courchene:

What it boils down to, however, is whether or not the focal point of Canadian policy ought to be the individual Canadian or the Canadian province (p. 168).

The point, and this is implicit in Courchene's paper, is that the two are not synonymous, and the establishment of a political order must take this into account if it is to succeed in the sense of surviving. Apart from the general observation that societies which discriminate against the individual ultimately collapse, there is nothing to be decided between the two policies on the basis of rational discussion. After all, a short-lived autocracy may be preferred to the longevity of some ideal democracy.

The issue of the efficacy of transfer payments is, however, amenable to logical discussion and even to empirical evaluation. That it has not been evaluated, one suspects, is due to a predisposition by governments to see themselves responsible for enhancing real estate values as the test of policy. Courchene does not provide evidence that the Canadian transfer system is self-defeating, beyond some casual observations and the usual anecdotal account of misused U.I.C. payments and the follies of DREE. The most significant thrust of his argument is that substantive and continuing transfers to economically depressed regions within a federal state will perpetuate and exacerbate the conditions which give rise to the income disparities. That is, the transfers will eliminate the incentives that the market mechanism requires to make the adjustments and reallocations necessary to remove the apparent inequities. It needs to be emphasized that this is not a moralistic judgement about the behaviour of "welfare bums" but rather a statement about how the economic (social? political?) system works. At issue is the venerable transfer mechanism problem, in this instance with absolutely inflexible exchange rates and presumably free movement of all resources and commodities. The corollary is that whatever the virtues or faults of the "market", exchange is the essence of social organization in our complex monetary society. The question is the empirical one of how transfer payments interact with the market mechanism to affect the spatial, as opposed to the personal, distribution of income.

There are three possible outcomes, which we may for convenience label the "optimistic", the "realistic", and the "pessimistic". The optimistic outcome would be where the transfers offset market imperfections obstructing regional development and lead to economic growth with relatively improved per capita income. The Marshall Plan for Europe was an obvious example, and one can cite numerous others where major disasters have struck, including the Halifax explosion. This is the current political rationale for regional transfers, but it has patently not worked for the Atlantic Provinces. The "realistic" outcome would be that which would have the transfers merely offsetting some original shortfall in resource endowment or politically disadvantaged position of the recipient region. As with alimony payments, the inequity is expected to persist. This logic provides the underpinnings of the original Confederation grants to the Maritime Provinces, as well as current recommendations that transfers be embedded in a revised Constitution. The fact that Atlantic Region incomes have consistently remained at a certain percentage of the Canadian average over such a long period suggests that the "realistic" outcome is not a plausible expectation.

At this point Courchene invokes his thesis in order to provide a theoretical basis for suggesting that the Atlantic Provinces transfers can rationally only be expected to lead to the "pessimistic" outcome. That is to say, the effect of the transfers is ultimately to modify the social, political, and economic structure of the Region so as to decrease the underlying productivity and real income generation. The result is a greater income disparity and an apparent need for even greater transfers. He cites as evidence the recent increase in
government spending as a percentage of gross provincial domestic product in the Atlantic Provinces. Ancillary to this is the stated conviction of the Parti Québécois that the Quebec economy had been seriously weakened by the infusion of federal transfers. One might also refer to the history of the Cape Breton coal subvention as an additional case in point.

Not surprisingly, Courchene’s conclusion is that “the status quo is unacceptable and it is time to rethink and restructure the economic interface between Canadians and their respective levels of government and, as well, between the various levels of government” (p. 145). In this regard, he is critical of various transfer programmes such as U.I.C. eligibility and the seeming perversity of minimum wage legislation. But these are not new complaints, and even though they are related to the basic thesis, one wonders whether such idiosyncracies are significant or just minor annoyances. His conclusion also outlines the criteria for “guaranteeing rights”; these tend to be equivocal, if not inconsistent.

Over all, the paper’s style is uneven and “patchy”, with the hint that it was pieced together from numerous other essays by the author. Nonetheless, the basic argument should not be judged by these peripheral matters, for in terms of analysis Courchene’s paper is the most important, and likely controversial, of all the contributions in Canadian Confederation at the Crossroads.

Auld has written a short paper addressing the frequently proposed notion of regionally or provincially oriented fiscal policies or, more specifically, (aggregate) demand management. The virtue of his paper is that he explores the problem in greater depth than most previous analysts.

A first assumption is that fiscal policy is desirable and that government possesses the expertise to fine tune the economy. Citizens, both individual and corporate, have demonstrated the agility to incorporate anticipated government policies into their behaviour patterns and to speculate against them to gain windfall profits. This is the practical economic aspect. The political aspect is the current pressure being exerted to ensure that governments be restricted to annual balanced budgets. Original Keynesian orthodoxy gave lip service to cyclically balanced budgets, but the implicit wealth effects noted above made such a goal politically unfeasible.

If one accepts the rationale of fiscal policy, there are several aspects to the matter. It was once widely believed that the shift of expenditure power to the provinces would inhibit the prerogatives of the federal government in demand management by leaving them little room for discretion. This overlooked the fact that fiscal policy is carried out at the margin of government taxing and expenditure and does not comprise the complete budget. A more subtle consideration has appeared in the form of “fiscal perversity”; for one reason or another, revenues and expenditures of all levels of government tend to move in the opposite direction to that which would theoretically counter exogenous changes in national income. The suggestion is that provincially based or oriented fiscal responsibility would eliminate this “perversity”, but there is scant reason to believe that this would in fact happen. Although both the federal and provincial governments currently have financial powers to exercise discretion, there is ample evidence that both have persistently been reluctant to let the so-called automatic stabilizers perform their function. This is not surprising in a world where unemployment and inflation occur simultaneously.

While Auld has sense enough not to espouse a regional monetary policy, the bottom line of regional fiscal policy is providing the provincial governments access to the Bank of Canada to cover their borrowing. This is a far more serious matter than letting them use the accumulated funds of the Canada Pension Plan as a backdoor form of taxation, as is presently the case. Deficits financed by the central bank do affect the cash reserves of the banking system; consequently, if the provinces were granted this privilege they would in effect be in the position of partly determining monetary policy.

If regional leakages in revenues and expenditures (fiscal policy) are significant, they are infinitely more so for monetary effects. The constitutional problem is not, as the author suggests, the efficiency of fiscal and monetary measures in achieving provincial goals, but rather the spillovers (leakages) which represent interference with the economies of other jurisdictions. Contractionary spillovers would be politically unacceptable and would lead either to an offsetting expansionary fiscal policy in the province affected or restrictions on trade flows through regulation or purchasing policies. Expansionary spillovers would not be opposed, and any concomitant inflation would be perceived as imported, confirming provincial government suspicions that it was “cost pushed” and in no way their fault. Inevitably, there would be either a bias towards expansionary policies or more perversity than can be imagined under the current situation.

Auld assumes that “basic control of the money supply will remain with the Bank of Canada” (p. 269), but it is difficult to see how this could be accommodated if the provinces can augment their revenues by recourse to the Bank. On the expenditure side there is a case to be made for changing demand in a regionally discriminating manner, at least within the limitations imposed by leakages. But this is already done both directly by the federal government and indirectly through transfer payments, for although demand management models usually assume that an increase in demand will be distributed neutrally across all forms of expenditure, this is obvious-
ly not realistic. As a general statement, government expenditures must perforce accrue to specific citizens in specific places at specific times. Moreover, when aggregate demand is augmented geographically on the basis of insufficient local expenditure, then either the inefficiency of imperfect markets is being remedied or optimal allocation is being sacrificed. Essentially this founders on the phenomenon which Courchene's thesis propounds; in short, there does not seem to be a "free lunch" even in a Keynesian world.

The Legal System

"Preserving the Uniformity of Law" - Peter Shiroky and Michael Trebilcock.

"Law Enforcement: Restoring the Balance" - Brian A. Grosman and Michael J. Finley.

The essay by Shiroky and Trebilcock is less than satisfying in that it does not really communicate a sense of the relevance of uniformity to the Confederation debate. But perhaps the fault lies not so much with the authors as with the fact that the issue is not one of great significance, given the tendency of lawyers to seek uniformity independent of political jurisdictions. Further, the authors devote a considerable portion of their discussion to the proceedings and effectiveness of the Conference of Commissioners on Uniformity of Legislation in Canada since its inception in 1918. The impression is that the law profession in Canada has traditionally accepted the desirability of uniformity as the sine qua non of legal proceedings and any discrepancies as only a matter of poor draftsmanship. This would seem to be a direct consequence of the nature of common law and its reliance on interpretation by precedence.

This untroubled state of affairs becomes progressively more threatened, with the common law being shunted aside by the paramountcy of a greatly increased amount of legislative law. Legislative law can be written in a Draconian style that gives rise to concern for the safeguards implicit in the common law. Yet at the same time the marginal effect may be miniscule in the light of enforcement by the authorities, especially where qualified by ministerial discretion. The suggestion is that political and economic considerations may be infinitely more important than legal draftsmanship in those areas where legislative law is ubiquitous.

One might question whether a lack of uniformity in the law would actually impose significant costs on the country. Undoubtedly there would be increased transaction costs for business and constraints of some degree imposed on resource mobility. Uniformity and standardization of anything will reduce information costs per se. Yet when one observes the movement of people and corporations around North America, it is difficult to weigh the costs heavily in the balance.

Of course the authors quite cogently point out that uniformity of law is not a precise concept, varying as it can from one extreme where it implies policy directions to the other where the focus is on mere wording; yet it is never made clear what the concept encompasses in the essay. On the other hand, the authors do make the valid distinction between uniformity as an economic variable in production and uniformity when law is viewed as social capital. While they conclude that uniformity is an important advantage of Confederation and that decentralization without uniformity will impose severe economic costs, the relative importance of the two facets of the law in this context is left uncertain.

The complementary paper on law enforcement, by Grosman and Finley, attempts to deal more directly with the locus of authority in law enforcement with reference to the Criminal Code. There are two parts to the question; namely, the right to prosecute and the control over police investigations. These are the two constitutional issues addressed, and one feels that the essay tends to emphasize the provincial point of view. This is not meant as a criticism but rather as a reflection on the orientation of what is a succinct and clear exposition of the issues. For example, Criminal Code prosecutions have traditionally been undertaken by the provinces, and the authors note that this is provided for in the Code itself. In 1969, however, the Criminal Code was amended, specifically redefining Attorney General to include the Attorney General of Canada, a matter which the authors tend to gloss over.

As usual, the B.N.A. Act, in its wisdom, is ambiguous in assigning responsibility and authority, so that conflict arises over whether uniformity of enforcement is more desirable than recognition of regional sensibilities. This involves that specific concept of the uniformity of law concerned with the actual results of the legal process. In brief, the problem resolves into whether provincial and federal authorities are exclusive (mutual modification) or overlapping (concurrent), in which case the federal legislation would be paramount.

The second issue involves that aspect of enforcement concerned with police investigations and bears some relationship to the issue of authority to prosecute, but it is more intimately concerned with the role of the R.C.M.P. in certain areas, particularly narcotics cases, in all parts of Canada. With the exception of Ontario and Quebec, which have their own provincial police, the responsibilities of the federal force are extended by reason of the remaining provinces contracting with the R.C.M.P. to police their respective jurisdictions. In these instances, there arises the question of the extent to which a provincial government can influence the internal
management of the force insofar as this affects its own province. As the essay by Grosman and Finley points out, the inability to do so effectively negates any advantage conferred by decentralization, in that local attitudes and sensibilities are not respected.

The authors correctly point out that the matter can obviously be one which leads to recurring confrontations between the federal and provincial governments. That it could have some political significance is evidenced by the fact that a government task force was created to look into the matter and prepare a report, although one suspects that only a minority of Canadians were aware of it.

The question of law enforcement operations is one of management and in the final analysis is determined by mundane cost factors. In a nutshell, law enforcement is costly and obviously too expensive for most provinces. The contracts that eight provinces have with the R.C.M.P. are relatively inexpensive to them and represent a considerable subsidy on the part of the federal government. Some thirty years ago British Columbia recognized this and abandoned their provincial police force. Even today Quebec and Ontario are content to allow the R.C.M.P. to carry the brunt of the very costly narcotics investigations.

Unfortunately Grosman and Finley do not bring out this aspect of “restoring the balance” between the provinces and Ottawa in regard to law enforcement. One suspects that their commitment to provincial “rights” leads them to ignore the practical aspect of the question.

Regulatory Matters

“Dividing the Power to Regulate” – J.C. Pattison
“Education, Broadcasting, Language Policy and the Provinces” – Pierre Lortie
“The BNA Act, NHA, CMHC, MSUA etc.: ‘Nymophobia’ and the On-going Search for an Appropriate Canadian Housing and Urban Development Policy” – M.A. Goldberg

The above three papers address themselves to the matter of regulation, a genus of government policy which tends to be specific and which is a concern of much of the B.N.A. Act. In a federal constitution, the question is not simply the definition of the regulatory powers but also the allocation of these powers between the different political jurisdictions. In effect, the former is the essence of Confederation. Yet it is difficult to analyze this phenomenon in either abstract or concrete terms because its specific nature makes it difficult to arrive at a satisfactory definition.

In the Preliminary Report to First Ministers on the “Regulation Reference” the Economic Council approaches the phenomenon as follows:

Government regulation is a form of social intervention or collective action. It aims at the substitution of commands and controls, of rights and duties, for the economic signals of the market place as a means of social and economic organization.

The Report then identifies four instances of “market failure” requiring regulation—spill-over effects, imperfect information, natural monopoly, and “destructive” competition. In such cases, government intervention is intended only to offset the inefficient performance of markets where the society is conceived of as relying ultimately on a system of voluntary exchange. Were “market failure” the only rationale for regulation, then in a free enterprise economy the obligation to intervene would apply nationwide. In such circumstances there would be differences of opinion both as to whether inefficiencies existed and about the most effective form of regulation. The principle, however, would remain intact, and the constitution need only refer to the general categories of “market failure” and allocate the powers to regulate on the basis of administrative efficiency. The responsibility of government at all levels would be clear: to intervene wherever and whenever the production and distribution of goods was not being accomplished in a way that maximized their value to society.

It is obvious, however, that the world is not quite so simple. Neither the amount nor the particular mixture of regulation in Canada at present can be rationalized on the basis of economic efficiency. Both federal and provincial regulatory statutes either do not contain statements of objectives or, where they do, are so vague and inconsistent as to be worthless as a guide. The reason is, of course, that regulation is used to pursue goals of distributive justice, and one is tempted to generalize by saying that this is by far the primary raison d’être of regulation in Canada. It is not just that the amount of regulation is abnormally large or that it occurs where evidence of “market failure” is indeed difficult to discern, but also that obvious instances of economic inefficiency seemingly go undetected by government while others are the subject of excessive intervention. Justifiable instances of regulation will themselves have distributive consequences, even if the intent is only to remove inefficiency. Since these two aspects of regulation cannot be separated, we cannot distinguish those statutes enacted for efficiency purposes from those intended to effect a redistribution of income.

As Pattison points out in “Dividing the Power to Regulate”, regulation is an alternative to taxes and transfers in that it affects a redistribution of income. One school of thought would hold that the two forms of policy differ in that fiscal measures do not appreciably affect total output whereas regulation directly interferes with voluntary exchange, thus eliminating the gains from trade. The former will, however, generate incentive and disincentive effects and will
consequently alter the composition and value of total output. Although it is conceptually possible to devise regulatory and fiscal measures that are perfect substitutes and thus ultimately produce identical effects, in practice the two policies will lead to a different incidence of gains and losses even when intended to achieve the same objective.

Why then should governments prefer one policy over the other? Pattison suggests four reasons. First, apart from enforcement, the costs of regulation do not appear in the public accounts. Second, groups affected by regulation are generally less politically visible than those involved directly with taxes and transfers. Third, governments that have to live with open economies, especially provinces, have relatively few policy options open to them; the effect of regulation is, of course, to close the economy. Fourth, and this is perhaps the most important reason, groups that are regulated often benefit from the intervention by having their positions in the economy protected. It might be added that the mechanism of regulation usually impinges in the first instance on those participants in the market process that have the greatest self-identity, such as an industry versus consumers. One could generalize therefore that regulation would be the favoured policy form for the smaller political jurisdictions and that this tendency would be reinforced by the greater ability of easily identified vested interests to influence government policy.

On the other hand, if distributive equity is an accepted rationale for regulation, then regional diversity would require some degree of local autonomy in its application. It is here that a distinction should be made between federal policies that inadvertently discriminate against particular areas and local government initiatives that are intended to accomplish that very thing. Two examples of the former might be the Canada Water Act and federal trade policy. It should be obvious, although it does not seem to be, that effluent standards to protect against pollution should not be the same in southern Ontario as in the less developed parts of the country. This is especially true if the demand for clean water is income elastic and incomes are lower in the latter areas, which is usually the case. Much more attention has been paid to commercial policy, where it has long been held that it discriminates against the nether regions of Canada, especially the Maritime Provinces. Undoubtedly this was true when protection was first adopted, but unless the degree of protection has increased more rapidly than the rate at which people in the disadvantaged regions have been able to adjust, then the cost in terms of personal incomes on that account must have been eliminated over time. To argue otherwise is to assume that the people of those regions have not had the wit to adjust for purposes of their own self interest.

The federal commercial policy had, however, continued to have the effect of impoverishing the non-manufacturing regions in terms of total output and development, and it is this aspect of policy which is relevant to regulation initiated at the provincial level. If the objective of provincial governments, rightly or wrongly, is to enhance the development of their own territories, then regulation will become a political tool to this end.

Distributive justice will not refer to personal incomes but, instead, to provincial (and municipal) development. Indeed, market success, rather than market failure, will often contribute to the proliferation of local regulation in the sense that economic efficiency would dictate production locating out of the area.

Despite the efforts of the Fathers of Confederation, the B.N.A. Act is relatively ineffective in controlling such tendencies. As Pattison remarks, it is more appropriate to a customs union than a common market in that only direct interference with interprovincial trade is proscribed. Neither indirect restrictions on trade, such as quality standards, nor restraints on people and property are unlawful, since they are regarded as civil issues within the purview of the provinces. Thus the latter are easily able to constrain the free movement of people and resources that is the essence of a federal state. This is presently being done by all provincial governments, through licensing, purchasing policies and other techniques. Quebec is perhaps more honest about it than the others, since their policy is explicitly set out in a 1972 document published by the executive council of the Parti Québécois entitled "Quand Nous Serons Vraiment Chez Nous". The sentiment of the title is applicable to the philosophies of all provinces. The problem is that the provincial governments have grown to a size where they are self-serving entities in themselves.

Nevertheless, the fact remains that there is an argument for respecting regional diversity. Ironically, a federal constitution only has relevance as long as there are identifiable local cultures or societies. The fundamental question behind the conflict over the sharing of jurisdiction between the two levels of government is how best to satisfy these apparently conflicting desires. There is no a priori reason, for instance, to assume that the current provinces are the ideal configuration. But this aside, what criteria are germane to minimizing the disadvantages of local jurisdiction? Much is made of the need to maintain market areas sufficient to realize economies of scale. Yet these are really short term phenomena, as technology will adapt to the parameters of the market in the long run and certainly a constitution must be considered in that time frame; hence, it is difficult to accord economies of scale much weight.

Pattison suggests that:
The major factor in the choice of government to regulate a particular field is not efficiency, which is beloved mainly by economists, but finding the level which minimizes spillovers into other jurisdictions (p. 119).

It is difficult to find fault with this formulation if we can agree on what is an acceptable minimum. Unfortunately, since the externalities to be counted must include the pecuniary as well as the technological if distributive justice is to be served, one wonders just how many actual cases would not involve significant spillovers. Casual evidence from the experience of conflicting policies of provincial agricultural marketing boards would suggest that there are very few.

Yet if we emphasize local preferences on the grounds that provincialization has in general not been successful. He challenges the cherished notion that every Canadian family should own a home and that housing policy has been burdened with trying to satisfy a multitude of objectives.

Goldberg's thesis is that, fortunately, this attempt at centralization has in general not been successful. He challenges the cherished notion that every Canadian family should own a home and every house have indoor plumbing. This sentiment is encouraged by every politician, developer, mortgage company, and plumber for more than altruistic reasons. Yet there is no evidence to indicate that the present quantity and quality of housing in Canada represents anything other than our current best social choice between homes.
and other goods, given our total income and its distribution. Thus, while we may quarrel with Goldberg's judgement about high quality housing, it is refreshing to have the usual platitudes questioned.

The author proceeds to describe the myriad relationships and interventions by the various levels of government in urban development in a comprehensive, although perhaps acerbic, manner. The nub of the matter lies in the trade-off between efficiency and equity. Unfortunately, as Goldberg points out, even this can be misconstrued and misrepresented. The presumably abnormally high real estate values in central urban areas are often ascribed to greed or other human vices. Without denying original sin, it still needs to be said that these are demand induced prices and reflect perceived locational advantages. It is overlooked that these positive externalities are most often the result of government intervention in the form of either regulation or the provision of infrastructure.

The question still remains as to the appropriate division of regulatory powers in housing. Goldberg's answer is, in general, to leave allocational regulation to the lower levels of government and distribitional policies to the federal government. Being pragmatic he extensively qualifies this simple dichotomy, but the general principle is retained. The difficulty is again that regulation and fiscal transfers are substitutes and therefore not independent in their impacts. In fact, one can imagine provincial or municipal governments undertaking allocational policies in anticipation that the federal government would be required to contribute towards restoring equity. This can be minimized if not eliminated by restricting policies for distributive justice to global measures affecting income distributions rather than being directed at specific markets such as housing. There is no guarantee that provincial governments could be induced to give up jurisdiction over distributive justice even if it were technically possible. Indeed, this power seems infinitely more attractive to lower levels of government than responsibility for correcting "market failures".

Thus we come full circle to the contradictions inherent in a federal state, which is what Canadian Confederation at the Crossroads is all about. The appropriate allocation of powers between the various levels of government cannot be determined by any set of simple criteria. This is a fortiori the case where equity is of significance. If "market failure" was the only concern then the problem would be difficult but relatively tractable. The desire for distributive justice compounds the problem in that it not only reduces economic efficiency but provides positive incentives for doing so where jurisdiction lies with the lower levels of government. If these propositions are correct then the real trade-off may ironically be between the size of governments in the economy and the proportion of total jurisdiction to be allocated to the provinces. After all, the absence of regulation and political control of resources means freedom for individuals from government intervention—in which case the question of federal versus provincial jurisdiction is no longer relevant. This would have been an interesting and perhaps fruitful unifying hypothesis for the contributions to this volume. Perhaps this was what was intended; it would not have been out of character for the Fraser Institute. Therefore, in this instance objectivity may not have been a virtue.

La distribution des villes selon la taille de leur population: Le système urbain québécois 1871-1976, Yves Brunet et al. Notes et Documents No. 78.01, Département de géographie, Université de Montréal, 1978. 70 pp., diagrs., bibliogs.

Much has been written on city size distributions. Challenging theories have been advanced, especially those based on the concept of entropy, and thorough empirical studies have been conducted. But, as Brunet et al. point out in the introduction to this research monograph, few studies really bridge the gap between theory and fact. Is theirs an exception?

In first approximation this is so, since exactly half of the monograph is devoted to an empirical analysis of changes in the rank size distribution of the cities in Quebec between 1871 and 1976, while the other half explores economic development and entropy as possible sources of explanation for these changes.

The empirical part of the study is detailed and informative. Questions of definitions are, on the whole, adequately dealt with. Three of these are seen as crucial: defining the urban system under study, delimiting the time period, and evaluating the population of each urban area at each point in time.

The definition of the urban system under study revolves around the controversy as to whether Ontario and Quebec each form a separate system, or whether there is only one urban system in Central Canada. The numerous studies of spatial interaction in the Quebec City to Windsor corridor, made by geographers mainly from Ontario, tend to show that there is one unified system. But the constraint imposed on the "one system thesis" is that the flows studied are overwhelmingly economic in nature. As expected, the "two system thesis" gets its support primarily from researchers in Quebec, who are quick to evoke the cultural differences between the two provinces. Brunet et al. do not really settle the argument. They critically review some of the earlier rank size studies that have proposed the better statistical fits, obtained when Quebec and Ontario cities are considered as one system, as an argument for the "one
Concretely, this means a correlation analysis between the entropy and corresponding levels of potential energy transformation capacity through work in physical systems, and on the other hand, on the one hand, levels of correlations, the authors go back to the first law of thermodynamics of entropy as measured by the ten indices of primacy. The correlations obtained are almost all highly significant. To account for these correlations, the authors go back to the first law of thermodynamics and its transformation through work. In any case, it reverts to an economic explanation. Is not the real challenge to integrate economic and cultural factors in the same theory, rather than derive hypotheses from concepts that were created to study a completely different object in the first place?

Brunet et al. start their study in 1871 and are able to include in their analysis the 1976 Census returns. This long time period spans the industrialization of the province, and this allows for a longitudinal test of El Shakhs' hypothesis on the impact of economic development on the rank size distribution. On the other hand, such a long study period poses problems of consistency in the definition of the urban areas included in the study. The analysis is done on all cities of more than 4,500 persons at each of the fourteen census years between 1871 and 1976. An urban area is defined as a continuous built up area, discontinuity being defined as more than half a square mile of empty land, excluding urban parks. Such criteria are acceptable, except that they are at the source of a great variation in the number of cities included at each census—from 5 in 1871 to 62 in 1976. This, in turn, reduces the comparability of some of the ten indices the authors compute for each of the fourteen distributions. These range from the regression coefficient of the rank size relationship to various other measures of primacy such as the proportion of the population in the four largest cities and the ratio of the largest to the second largest.

These indices are then carefully analyzed and a credible periodization is derived: increasing primacy until 1921; decreasing primacy from 1921 to 1956; and increasing relative size of Montreal from 1956 to 1971 along with increasing lognormality in the rest of the system. In 1976, the relative growth of Montreal appears to have stopped.

In attempts to provide explanations for this evolution the authors first turn to economic factors, but their discussion is short and impressionistic, although suggestive. They choose instead to construct an explanation based on the concept of entropy. They first note, probably correctly, that nobody has directly investigated the relationship between the number of cities in the system and the level of entropy as measured by the ten indices of primacy. The correlations obtained are almost all highly significant. To account for these correlations, the authors go back to the first law of thermodynamics on the conservation of energy and its transformation through work. They then propose an analogy between, on the one hand, levels of entropy and corresponding levels of potential energy transformation capacity through work in physical systems, and on the other hand, degree of lognormality and economic activity (as work) in urban systems. Concretely, this means a correlation analysis between the ten indices and the proportion of workers in each of six sectors of economic activity, the observations being the ten points in time for which the workforce data are available.

What Brunet et al. are doing is really relating the evolution of an urban system to the occupational transition. Although they note that most researchers in the social sciences have coupled entropy with information and much less with the concepts of energy and work derived from the first law of thermodynamics, this reviewer is not convinced that the physical analogy adds much to the explanation. In any case, it reverts to an economic explanation. Is not the real challenge to integrate economic and cultural factors in the same theory, rather than derive hypotheses from concepts that were created to study a completely different object in the first place?

Paul Y. Villeneuve
Département de géographie
Université Laval


A l'occasion du Séminaire du Mont-Gabriel sur les principes directeurs des activités scientifiques dans le Nord Canadien, le professeur Freeman avait bien montré le besoin impérieux d'études démographiques sérieuses dans le Grand Nord Canadien. C'est donc dans ce sillage que le ministère des Affaires indiennes et du Nord suscita l'organisation d'un colloque sur les populations nordiques. Un comité présidé par Keith R. Greenaway s'occupe de la partie scientifique tandis que l'organisation matérielle fut prise en main par l'Arctic Institute of North America. Le colloque eut lieu à North Hatley, Québec, du 10 au 12 mai 1976 et attira la participation de 33 personnes dont 17 étaient auteurs de communications. Les travaux du colloque furent organisés autour de trois grands thèmes que l'on peut résumer de la façon suivante: le premier était centré sur le problème des données statistiques et les problèmes de collecte de l'information, tandis que le second avait pour but de faire le point sur les recherches en cours et voir s'il y avait des possibilités de concertation; enfin le troisième thème cherchait les moyens d'intégrer les associations autochtones et les personnes en général intéressées au
Nord au processus d'identification des problèmes démographiques du Nord et de recherche de solutions à ces problèmes.

Dès l'automne de 1976, grâce au travail incessant de Paula Weston, l'A.I.N.A. publiait un rapport sommaire. À titre d'éditeur des actes du colloque, Paula Weston a pour chacun des thèmes présenté le contexte de la séance de même qu'une articulation des différentes communications qui y furent présentées. Il ne restait plus au lecteur qu'à attendre avec impatience la publication intégrale des Actes. Celle-ci sortit en 1977. Seize des dix-sept communications furent ainsi publiées, douze en anglais et quatre en français, chacune précédée d'un résumé dans l'une et l'autre langue. Elles vont de l'analyse statistique sophistiquée de certaines situations-types aux problèmes d'éthique soulevés par les recherches démographiques. Pour ne pas trop s'auto-évaluer, trois communications analysaient la situation telle qu'elle se présente au Groenland, en Alaska et en Union Soviétique.

Une des recommandations de ce Colloque fut de créer un Comité de recherche sur les populations nordiques, formé de représentants tant du monde universitaire que des milieux gouvernementaux, pour susciter des recherches sur les populations nordiques canadiennes. Une des premières tâches que ce comité s'est assignée, fut de préparer une bibliographie sur les populations nordiques et elle fut confiée à Kenneth de la Barre, secrétaire du Comité. Au-delà de 600 titres y sont répertoriés, les trois-quarts contenant un résumé. Le tout se divise en deux grandes parties: la liste des documents en ordre alphabétique de l'auteur principal suivie d'un index par sujet et aire géographique où chaque entrée se retrouve en moyenne cinq fois. Bien plus à la fin de chaque entrée, on retrouve dans la mesure du possible le nom d'au moins une bibliothèque où l'on peut consulter le document répertoré. Cette bibliographie touche à des documents publiés depuis un siècle et plus de la moitié concernent les Territoires du Nord-Ouest et le Yukon.

Les chercheurs qui s'intéressent aux populations du Nord Canadien trouvent donc ici, grâce aux efforts soutenus de Paula Weston et de Kenneth de la Barre, une masse de renseignements sur un sujet qui bien que faisant souvent l'objet de recherches, n'était pas accessible à un public plus large.

Jacques Légaré
Département de démographie
Université de Montréal


This collection of readings is less about Canada's experience with regional economic policy than about the experience of Canadian academic economists in commenting upon such policy, especially since the Economic Council of Canada's "discovery" of interregional income disparities in 1965. The regional problem, it seems, is that these disparities are inconsistent with the logically expected operating results of the neoclassical, general equilibrium model which has been such a powerful influence on most North American economists. The authors represented here, generally speaking, conclude that the solution to the regional problem lies in restoring the features of the neoclassical model, especially perfect competition and perfect factor mobility, to the Canadian interregional economic system. An equally plausible, and more realistic, prescription is to recognize that interregional factor adjustment under the Canadian mixed economy system is not only incomplete but also unlikely to become complete, and therefore to call for the economic (in both senses) development and growth of the major political regions of the country.

Implicit in the "neoclassical" view of regional disparities is the assumption that there is nothing wrong with the national economy except the regional problem. An alternative interpretation of the facts, less prevalent in academic and senior federal civil service circles in Canada but perhaps more valid, is that the existence of serious interregional income and employment disparities is itself the best proof that the national economic performance has been, and is, inadequate.

Professor Lithwick reveals in his Introduction that the book was stimulated by his sojourn with the Working Group Study for the Economic Council, where his dissatisfaction with the "state of the art" of regional economics in Canada led him to review some of the available literature. His selections are those works he came across which provide "... the foundations for a constructive reconsideration of our approach to the problem of regional disparities."

There are 26 papers or extracts in all, presented in nine sections. Sections 1 to 4 comprise Part A, titled "Defining the Problem: The Economics of Regional Disparities in Canada"; Part B has sections 5 to 9 under the title, "The Search for Solutions: Policies for Regional Disparities in Canada".

Section 1, "Dimensions of Canadian Regional Disparities", contains long excerpts from the 1965 and 1975 annual reviews of the Economic Council of Canada, which marshal the statistical aggregates and the Council's analytical conclusions. The latter include
the contentious proposition that differences in industrial structure are not important in explaining interregional productivity differentials. In a third selection, Alan Abuchar argues that measured income differentials are mitigated somewhat by the economies of scale in consumption enjoyed by the larger average households in certain lower-income regions.

Section 2, "The Causes of Regional Disparity", is slim, biased, and most unsatisfactory as a review of the related economic theory. Two items are included: a 1965 paper by Anthony Scott which offers a stimulating theoretical approach to policy for declining regions; and a brief, realistic, general review by Wayne Thirsk of the various macroeconomic avenues of long-run regional adjustment available to a small open region. Scott's survey of some branches of economic theory in search of policy principles and his own policy conclusions are provocative and questionable. He develops a regional version of the "staples" interpretation of economic development according to Innis and his followers, which serves to underline the desirability of interregional labour mobility as the most appropriate response to regional decline. The result seems rather similar to the export-base model and theory familiar to American regional scientists. His conclusion that governments of declining regions should themselves close down exemplifies the refreshingly forthright manner in which Scott states his position, but does he really mean it to imply that Newfoundland or Nova Scotia, for example, should disappear as economic and political units?

Section 3 offers separate discussions of three "economic mechanisms for correcting regional disparities." Thomas Courchene presents an econometric analysis of interprovincial labour migration data from 1952 to 1967, which tests some thirteen hypotheses regarding the relationships between migration and other economic variables. He concludes that migration is an economic variable, responding increasingly to interprovincial earnings and unemployment differentials in a manner conducive to efficient resource allocation and thereby alleviating provincial economic inequalities. Because the analysis does not permit any definite conclusion as to the relationship between migration and economic adjustment, Courchene concludes with a new tentative hypothesis that interprovincial migration flows have not been adequate for purposes of (complete) regional economic adjustment. He thus leaves open the policy question of whether such flows should be increased or other steps should be taken on the assumption that increased flows are not practicable or desirable.

George Wilson discusses the role of transportation in regional economic growth and concludes that, especially in developed North American regions, the crucial message is the reduced capacity of improved transport to alter regional and national economic patterns and the increased real economic costs of using transportation for these purposes. The third reading is an extract, on trade and regional development, from a 1975 report of the Economic Council, which acknowledges the historical and current importance of the tariff in shaping Canada's economic development and its regional dimensions.

Section 4, "Views on Disparities from the Regions", is limited to only two viewpoints, even though Lithwick notes the "virtual unanimity among the regions . . . that they are not understood by Ottawa." The first is John Graham's consideration of the pattern for optimum economic adjustment for Nova Scotia from his 1963 book, Fiscal Adjustment and Economic Development: A Case Study of Nova Scotia. Essentially, Graham considers both sides of the 1950s argument, between Anthony Scott and J.M. Buchanan, as to whether federal grants to provinces impede regional adjustment by restraining labour migration. Notwithstanding the high quality of Graham's contribution, this is a surprising selection from the region which has experienced several Royal Commissions, the Atlantic Development Board, and the Atlantic Provinces Economic Council over the years, because his topic is more in the realm of public finance than in regional economic disparities. The second item is Kenneth Norrie's skeptical 1976 comments on Prairie economic alienation, in which he applies the criteria of whether the alleged instance of economic discrimination against the Prairie Region is directed at economic distortions clearly initiated by the federal government or other national institutions, and of whether its removal would unambiguously benefit the region. He concludes, first, that many grievances are dissatisfaction with a market economy rather than with federal policy, and second, that many of the apparently more legitimate arguments have been incompletely analyzed by their proponents.

Section 5 begins Part B with three readings that treat regional disparities within a political science, and/or political economy, context. These papers remind us that there is more to Canadian regionalism than disrespect for the neoclassical general equilibrium model and that, in David Lilienthal's words, "... the solution of regional problems and the development of regional resources are matters of concern to the whole country." The first reading is J.E. Hodgett's analysis of regional interests and policy in a federal political structure, from which he concludes that the parliamentary party system only permits such spontaneous regional interests as exist in Canada to be aggregated and articulated within conventional provincial boundaries. In the second, "Regionalism and Confederation", Paul Fox reviews the history of federal-provincial relations in Canada, and comes down in favour of "... whatever arrangements are necessary with each province to satisfy its interests and to main-
tain some semblance of over-all cohesion without worrying about uniformity." The third reading is Vincent Bladen's 1935 article, "The Economics of Federalism", in which he subscribes to rough equality in standard of living among the provinces as the appropriate regional policy objective, in preference to equalizing provinces' ability to perform the functions required of them.

That Canadian federal-provincial fiscal relations failed to heed this advice is confirmed by the two articles comprising Section 6, "Fiscal Federalism: The Equalization Approach to Regional Disparities." The first is John Graham's 1964 paper, "Fiscal Adjustment in a Federal Country", in which he proposes and explains the application of the principle of fiscal equity to federal-provincial, and provincial-municipal, fiscal relations in Canada. The second is Douglas Clark's descriptive outline, "Federal-Provincial Fiscal Arrangements for the 1972-76 Fiscal Period".

Section 7, the longest with six articles, deals with "The Developmental Approach to Regional Disparities". Thomas Brewis provides an historical perspective on "Regional Development in Canada" which suffers from excessive brevity leading to unsatisfactory generalizations, especially regarding the years before 1960, and which contains a section on evaluation which discusses the difficulties of evaluating regional policy. The second item is DREE's own (undated) account of the policy shift made in 1974 to a "multi-dimensional" approach to regional development, which complements the Regional Development Incentives Act (R.D.I.A.) with new General Development Agreements with each province and with more decentralized administration in DREE itself. In the third, Richard Bird offers a comprehensive, pragmatic review of various possible "Tax Incentives for Regional Development" based on the reasonable assumption that, if labour in the poor regions is not to be moved to the rich regions, the only direct way to reduce interregional productivity differentials and thus regional disparity is to increase the capital-labour ratio in the poor regions. There follows three assessments of the R.D.I.A. incentives program—Robert Woodward's 1975 article on "The Effectiveness of DREE's New Location Subsidies", David Springate's 1973 exposition of "Difficulties Associated with DREE's Current Approach", and Dan Usher's 1975 raising of "Some Questions about the Regional Development Incentives Act"—which seem to have missed, or perhaps not to accept, Bird's (and others') 1968 assumption concerning the main purpose of the R.D.I.A. grants and their predecessors. The three essays nevertheless are valuable contributions to the Canadian regional policy literature.

Whether the link is too obvious or just not accepted by Professor Lithwick, it is unfortunate that Section 7 does not contain an explicit exposition of the case for pursuing regional development as a way of reducing interregional income disparity. An extract from the 1964 report by Professor Thomas Wilson of Glasgow University to the Atlantic Premiers, Financial Assistance with Regional Development, might have served this purpose rather well, for example.

Section 8, "The Role of the Provinces in Regional Policy", contains only two items, reflecting the general neglect of this topic by Canadian economists, which in turn probably reflects their keen appreciation of how difficult it is to do research in this field where the information base is not well established or readily to hand, neither for problem nor for policy. The first item, by Thomas Brewis, constitutes a useful step in correcting this deficiency, being a first-hand survey of regional goals and policy programs as espoused in provincial capitals across the country; but much more remains to be done. John Graham's paper on "Economic Development of the Atlantic Provinces", although somewhat dated (1959) and dealing more with federal than provincial regional policy, concludes with some advice about the design and conduct of regional policy which seems as valid, and as necessary, in 1979 as it did twenty years ago.

Section 9 concludes the book with an overview of regional policy. In the first reading, Wayne Thirsk assesses manpower policies, (labour) demand shifting policies, inflation and separate currency arrangements, general fiscal transfers, regional income policies, and regional economic information. Ian McAllister offers a positive, sympathetic appraisal of several regional program initiatives, including ARDA and the P.E.I. Development Plan; but I find his criteria unrealistically demanding when one considers the present, early stage regional development planning has reached in Canada. McAllister seems also to consider plans as documents rather than sets of policy measures and programs intended to achieve certain objectives in real regions. The final article is Milton Moore's "Income Security and Federal Finance", in which he argues that federal government expenditures and transfers for regional economic expansion can only be justified as part of an overall, national income redistribution policy. This view is no less extreme than his observation that "... the federal form of government is an historical misfortune ..." for Canada.

Professor Lithwick's book of readings should serve its two objectives rather well. Economics and political science students will find it a fruitful source of material and views on Canadian regional policy that should provoke stimulating seminar discussion and debate. Regional economists, and others interested in this branch of Canadian federal-provincial economic policy, will be indebted to Professor Lithwick for the opportunity to follow and share his search of the Canadian literature for greater theoretical meaning and guidelines, both to assess past and present policy and to...
future policy. In his introduction to Section 9 he repeats his main question, "What is the appropriate role for regional economic policy in a federal country?", and concludes that if no simple answer based on the Canadian experience has been forthcoming, the reasons appear to lie first in the failure to establish what precisely the problem is, and then how to deal with it. This challenge provides a clear and large field for Canadian regional economists to explore and develop; it is reasonable to hope that, as they do, they will come to recognize the limited usefulness of the neoclassical general equilibrium model for such purposes, and make greater use of other branches of economic theory that can be helpfully applied. This challenge is more pertinent to academic regional economists, perhaps, than to regional science practitioners and adherents who already accept the need for regional policy to be based also on the lessons of political science, geography, and other disciplines as well as economics.

My final criticism is that the book has omitted, perhaps because some of it was not readily available to Professor Lithwick, a good deal of the writings—academic and otherwise—on the Atlantic Provinces regional economy and the long history of policy related thereto. It is to be hoped that he will include the contributions by scholars such as Keirstead, Rogers, Howland, Cairncross, Wilson, Roy George, Copes, and the Atlantic Provinces Economic Council, in his continuing search for better understanding of regional problems, theory and policy in Canada.

The book contains a good bibliography, which places the Canadian literature within the international context and points the reader to the regional theory and policy experience of other countries. It deserves to be considered as a complement and companion volume to Living Together, the Economic Council's 1977 landmark study of regional disparities.

Frank T. Walton
Cabinet Secretariat
Government of New Brunswick


It is a frequent complaint that research has little influence on housing policy in Canada. Several explanations have been offered: little research has been done of relevance to policy; research results cannot be applied because they are derived from unrealistic theory or from too narrow a data base; research does not answer the questions of interest to policy makers; academic disciplines do not understand social reality sufficiently to be useful; and finally, policy makers ignore the available research results.

Against this background, the Centre for Urban and Community Studies at the University of Toronto held a conference, in October 1977, to which government officials and academics from various disciplines were invited. This volume contains the ten papers presented at the conference, an edited transcript of the discussions, and an overview of the conference by the editors.

Unfortunately, the exploration of the relationship between research and the development of housing policy lacks any focus. None of the papers directly analyzes the relationship, although the topic dominated discussions. There seems to have been two conferences—one at which research findings related to housing were presented, and another at which the role of research in policy formation was discussed.

The latter conference rambled, did not explore concepts in depth, and often floundered due to confusion about word usage. Although understandable, it is regrettable. The link between research and policy can be explored by posing and answering researchable questions. What bureaucratic organization yields the greatest influence of research on policy? In what fields of public policy has research had influence and what explains differences among fields? How do research units behave in a bureaucracy? Do they simply offer assessments of policy alternatives or do they seek to enlarge their domain of influence? What questions do politicians wish answered, and what questions can researchers answer? The link between research and policy should be examined directly and systematically, just as one examines the income elasticity of demand for housing services, rather than through a discussion among people interested in housing issues.

The papers presented at the former conference reflect the lack of focus and collectively do not form a coherent package, although individually they are interesting. A review of these papers must necessarily be episodic.

The opening paper, by John Quigley, is an excellent survey of recent research on the determinants of housing demand. He notes that the range of estimates of the price and income elasticities of the aggregate demand function has narrowed considerably—most researchers believing demand to be slightly inelastic. Work extending the basic model of the "new" urban economics is dismissed as mathematically ingenious but economically uninteresting, especially for policy purposes. The judgement is perhaps too harsh, for such models offer the most coherent framework for normative analyses. Further, such models of long run equilibrium can be useful in policy studies, for example the study of
gages. Supply constraints, speculation, and the capital gains tax
were found to have less significance in an explanation of the boom.

The availability of private mortgage insurance for high-ratio mort-
gages and geographers or discuss the recent evolution of Cana-
dian housing policy.

change in demand was facilitated by

the filtering process. The paper offers a good starting point for
anyone studying filtering. Five theoretical approaches are identified.
Davies finds the commodity hierarchy model the most sophisticated
theoretically but limited in applicability, and recommends further
research follow a simulation approach.

The remaining papers either present research findings by
economists and geographers or discuss the recent evolution of Cana-
dian housing policy.

David Scheffman presents evidence to “convince the layman” as
to the causes of the boom in housing and land prices in Canada. He
correctly argues that one must start by recognizing that the price ex-
plosion was not a local, but a national and international
phenomenon. In Canada he finds that the principal cause was an in-
crease in demand brought about by a rapid rise in real incomes, in-
creases in the size of the home-owning age group, and low real
mortgage interest rates. The increase in demand was facilitated by
the availability of private mortgage insurance for high-ratio mort-
gages. Supply constraints, speculation, and the capital gains tax
were found to have less significance in an explanation of the boom.

Most housing research has assumed that the household choice
of how much housing to consume is separable from the choice of
how to invest its wealth. A paper, by John Bossons, explores the
assumptions implicit in the separability assumption and finds
unrealistic the assumption of perfect rental markets for services and
perfect capital markets. More realistic assumptions alter conven-
tional conclusions and can imply that tax subsidies for home owner-
ship would have significant progressive redistributive effects by
enhancing the savings productivity of middle and low income
households. Bossons’ empirical tests roughly confirm his model,
although the portfolio balance variables are not significant.

Larry Ozanne and Raymond Struyk report estimates made of
the long run price elasticity of the supply of housing services from
the existing housing stock. Using the Components of Inventory
Change (CINCH) data from the 1970 Census of Housing in the
United States, they estimate the elasticity to have a lower bound of

0.3. This implies that any housing allowance will cause a significant
increase in housing prices. Much more work should be initiated to
investigate this elasticity because of the increasing popularity of
housing allowances and housing rehabilitation programs and
because the level of new construction will decline significantly over
the next decade.

Stuart McFadyen and Robert Hobart present a model which
compares the annual cost of owning versus renting detached housing
under various rates of growth of property values. The standard case
shows ownership costs exceed rental costs for holding periods of up
to five years. As rates of growth of property value increase, the
holding period necessary to make ownership attractive declines.
These results are, however, seriously limited by the lack of any
equilibrating forces between the ownership and rental markets and
the lack of any capitalization of inflationary expectations. This leads
them to conclude that expected capital gains justify ownership,
whereas ownership’s advantage is in insurance against unan-
ticipated price increases (at the time of purchase expected gains will
have been capitalized).

Michael Goldberg describes continuing work on the Inter-
Institutional Policy Simulator (IIPS) at the University of British Col-
mbia, which incorporates new developer behaviour equations.
Unlike many large urban simulation models, IIPS was subjected to
stringent tests of its ability to predict; however, actual change in
housing stock by subarea explained less than twenty percent of the
variation in predicted change. Further, no report was made of the
ultimate test of the model; namely, whether it represents the best use
of resources for policy development.

Eric Moore and Stewart Clatworthy report initial work on a
data base from Wichita, Kansas, containing annual enumerations of
characteristics of dwellings and characteristics of the occupying
household. The data reveal significant differences, among
subgroups of the population, in changes in housing consumption
over time. The authors conclude that “programs would be more ef-
fective if directed at specific subgroups rather than very general
classes of the population”, but offer no evidence about the feasibility
of such fine tuning.

The final two papers, by Albert Rose and Jeffrey Patterson, of-
er discussions of recent directions in social housing policy. Patte-
ron also includes good summary data on changes in house prices and
incomes, and ratios of housing expenditure to income. Both report
the shift in public housing from family to elderly accommodation,
the shift in emphasis from rental programs for low income
households to ownership programs for middle income households,
and the restraint in government spending for housing. Both express
consternation at this evolution, but offer no analysis of the policy
development process which suggests how the evolution might be altered.

In their diversity, the papers provide examples of three major approaches to housing research: one proceeding from logically consistent theoretical models to empirical testing (Bossons); another simulating the interactions of all sectors of an urban area (Goldberg); and another beginning from the micro-data of individual and institutional reality (Moore and Clatworthy). The strengths and the weaknesses of each are well known, especially to practitioners of the others: one is austere and unrealistic; another ad hoc and devoid of any representations of the market; another unable to offer much beyond documentation of heterogeneity. Competition among the practitioners would no doubt be healthy. Unfortunately, the market for policy advice is not well-developed and the conference did little to change this.

George Fallis
Department of Economics
York University

BOOKS RECEIVED


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New Brunswick Regional Development During the 60’s and the 70’s: An Introductory Bibliography (Revised Edition), Eric L. Swanick. P-204, 1979. $3.50.


