Setting Economic Goals: A Canadian Model

Every politico-economic system attempts to establish economic goals as targets to focus the use of productive resources. Some economic goals are *complementary*; that is, achieving one economic goal makes it easier to achieve another economic goal. For example, to reach employment rate targets, a government may lower interest rates on business loans to promote the creation of new jobs. In turn, the creation of new jobs will automatically help improve income levels in an economy and encourage consumer spending.

Unfortunately, some economic goals are *conflicting*; that is, achieving one economic goal makes it harder to achieve another economic goal. For example, government strategies to keep the economy's prices stable often have an adverse effect on employment rates and national production. Governments can promote price stability by raising interest rates to control the amount of money in circulation; as it becomes more expensive to borrow money for investment, businesses hire fewer workers and their production levels either remain constant or decline. Government policy-makers have to recognize this trade-off and decide whether the current priority is to achieve price stability or to put more people to work. They can't count on being able to have both. In this situation, increases in employment and production are the opportunity costs of stable prices.

The setting of economic goals, therefore, is a matter of normative, or policy, economics. In other words, governments must make value judgements when they set priorities for conflicting goals. On the whole, the economic goals that countries strive for are often similar. However, how each country prioritizes its conflicting goals will determine how it distributes its productive resources.

Since the 1960s, 10 economic goals have emerged as priorities in Canada (Figure 4.2). The following sections identify and explain each of them. The order of their appearance here does not indicate their order of priority. Each government has re-examined these economic goals and set its own priorities. In later chapters, we will examine these goals in greater detail.

FIGURE 4.2
Ten economic goals in Canada

1. Political stability
2. Reduced public debt
3. Economic growth
4. Increased productivity and efficiency
5. Equitable distribution of income
6. Price stability
7. Full employment
8. Viable balance of payments and stable currency
9. Economic freedom
10. Environmental stewardship

1 *Political Stability*

A stable government can help long-term planning and investment to flourish. Consistency in policy-making promotes both investor and consumer confidence and provides a climate conducive to economic growth. For example, each time a sovereignty referendum is conducted in the province of Quebec, consumer confidence (both foreign and domestic) is shaken, and the Canadian economy suffers. Similarly, in the United States, a political crisis in the White House usually upsets US stock markets. More often than not, political uncertainty has an adverse effect on a country's economy.

2 *Reduced Public Debt*

With very few exceptions, since 1970, government spending in Canada has increased at a faster rate than the revenues being collected through taxes. Governments have had to borrow money to cover the difference. This has meant that Canada's **public debt** (and the interest payments to service it) has grown larger year after year. Just as individuals cannot continue to incur large personal debt without suffering for it economically, governments cannot continue to add to the public debt without adversely affecting the economy. Inevitably, interest rates climb higher, as do prices for consumer goods. As well, there is the moral issue involved in running up a debt that future generations of Canadians will have to pay. Concerned Canadians have begun to demand more balanced budgets from their elected governments.

public debt
The total debt held by federal and provincial governments accumulated from their past borrowings, on which interest must be paid.

economic growth
An increase in an economy's total production of goods and services.

3 *Economic Growth*

Economic growth is defined as an increase in the economy's total production of goods and services. Theoretically, it represents an outward shift in the economy's production possibilities frontier. This growth can result from the discovery of new natural resources, an increase in the skilled labour force, technological innovations, and more efficient production processes. As economic production expands, Canadians have more goods and services at their disposal, thereby increasing the average standard of living.

As a result of the periods of substantial growth that the Canadian economy has enjoyed since the Second World War, Canadian workers now have access to three times as many goods and services as they did in 1945. In addition, as the economy expands, the public debt (if held in check) becomes less significant and easier to manage. However, the sustainability of continued growth must be questioned in light of the limited quantity of productive resources ultimately available to the Canadian economy.

4 *Increased Productivity and Efficiency*

Maximizing productivity means that scarce productive resources are put to efficient use to get as much as possible out of them. Economic efficiency is often the result of healthy competition. As Canadian firms struggle to be competitive in both local and global markets, they must make their production processes more efficient. The companies with the most efficient practices will maximize profits, prevail in the marketplace, and set new standards for others. Increased productivity will allow these firms to get more out of existing resources. Workplace training programs, incentives, and bonuses (such as profit-sharing plans where workers receive a portion of the extra profits that their effort and efficiency have generated) are used by some progressive companies to improve the productivity of their workforce. Although increased productivity is generally good for the economy, it can also have negative consequences. For example, if worker productivity is increased, fewer workers will be needed to produce the same quantity of goods and services.

5 *Equitable Distribution of Income*

The equitable, or fair, distribution of income may be the most value-laden of all economic goals; it is certainly the most controversial. When it comes to dividing up total national output, there can be as many interpretations of what makes for a fair division of wealth as there are stakeholders. Is it fair that the annual income of a corporate executive in North America is many times higher than that of the

transfer payments
Direct payments from governments to other governments or to individuals; a mechanism for providing social security, income support, and alleviation of regional disparities.

inflation
A general rise in the price levels of an economy.

deflation
A general fall in the price levels of an economy.

average salaried worker in the same company? How much income should be taken away in taxes from someone who earns $10 million a year and redistributed among families whose gross annual income is less than $10 000?

In Canada, the issue of income equity is further complicated by regional differences. For example, average employment incomes for residents of Ontario are statistically higher than for people who live in the Atlantic provinces, a situation that has existed for years. Through **transfer payments** (using revenues from one province to make additional social program payments in another), the federal government attempts to redistribute national wealth.

Socialists advocate a more equal distribution of wealth. Others argue that income equalization will only reward inefficiency and remove the personal incentive to work harder and take risks. As the debate continues, more and more Canadians are forced to use food banks or live on the street. Canada is not alone in this regard; no country, not even the most affluent, has completely solved the problem of poverty. The Canadian model uses a social welfare system anchored on socialized health care, free public education, and social services for needy citizens to distribute national wealth more equitably. However, this social welfare system is sustained by a larger amount of government spending each year.

6 *Price Stability*

Stable prices generally indicate that an economy is healthy. Fluctuating prices complicate planning and discourage investment. Both **inflation**, a general rise in prices, and **deflation**, a general fall in prices, are symptoms of an unhealthy economy. Periods of price inflation erode the dollar's purchasing power and raise the cost of living for Canadians on fixed incomes. Deflation, though rare in Canada, is commonly associated with periods of great economic crisis, such as the Great Depression of the 1930s. It should come as no surprise, then, that government economic policy seeks to promote and maintain stable price levels.

7 *Full Employment*

In an attempt to reach their optimal production targets, governments try to promote the full employment of the labour force. Unemployed workers result in total output levels well below the national production possibilities curve. An unemployed labour force also represents a waste of human potential and can cause economic hardships for unemployed workers and their families. Sustained periods of high unemployment usually indicate that a country is in poor economic health. During the Great Depression, Canadian unemployment rates approached 20 percent, and during economic downturns in the 1980s and 1990s, rates were more than 10 percent.

"Full employment" is usually defined as between 6 and 7 percent of the labour force being out of work. However, full employment has become increasingly difficult to achieve in Canada: machines continue to replace people on production assembly lines, computers now perform tasks that were once performed by people, and many jobs have been outsourced to countries where labour costs are a fraction of Canadian costs. Since the late 1990s, unemployment rates in Canada have remained above 7 percent, despite sustained economic growth.

8 *Viable Balance of Payments and Stable Currency*

Canada is a major trading country. The annual dollar value of trade per person is higher in Canada than in any other country in the world. In a global economy, the international flow of goods and currency in transactions such as importing, exporting, borrowing, and lending has become increasingly more important. The **balance of payments accounts** summarize all currency transactions between Canadian and foreign economies. If Canadians import significantly more than we export, there will be a negative effect on employment rates in Canada as well as the foreign exchange value of the Canadian dollar. It is important, therefore, that imports and exports roughly balance one another. Similarly, money that flows in and out of the country needs to be balanced to foster a stable Canadian dollar in foreign money markets. As the value of the Canadian dollar declines in foreign money markets, Canadians will find that imported goods will become more expensive and their cost of living will rise.

balance of payments account
National account of international payments and receipts, divided into current account, and capital and financial account.

consumer sovereignty
A principle of market economies that the production choices of the economy are ultimately made by the buying decisions of consumers.

9 *Economic Freedom*

Economic freedom refers to the freedom of choice available to workers, consumers, and investors in the economy. Canadian workers who want to improve their working conditions and income should be free to find and take another job. In a market economy, consumers should be free not only to purchase the goods and services of their choice but also, through their purchasing decisions, to determine what goods and services are produced. This is known as the principle of **consumer sovereignty**. In a market economy, people should be free to choose when and how to consume, save, or invest. Canadian public policy generally promotes economic freedom.

10 *Environmental Stewardship*

Economic activity must be carried out without significantly harming the natural environment. We have come to realize that the pollution of the air, water, and earth, the depletion of our natural resources, the destruction of the ozone layer that protects us from ultraviolet light, and the gradual warming of the planet are all additional costs of the decisions we make about economic development. If we wish to be more responsible stewards of our planet and protect it for future generations, we have to adjust the way we carry out our economic activities. Even if this means higher prices for consumers and lower profits for producers, we must find a way to reduce the negative effects we are having on the natural environment.

Potential problems can arise if Canada enacts environmental laws (such as a tax on carbon emissions) that make its products more expensive and its trading partners do not follow suit. This situation can make Canadian goods less competitive in world markets. It also raises a moral issue: If Canada trades with a country that has low environmental standards, does this mean that we are condoning the other country's harmful environmental policies? Clearly, on the normative side of economics, there is more to consider than just price!

Self-Reflect

1. Explain why full employment and price stability can be conflicting goals for the Canadian economy.
2. Explain how both inflation and deflation are generally bad news for the Canadian economy.
3. Explain why the principle of consumer sovereignty is important in a market economy.